



Argus. Forging ahead.

THE ARGUS GROUP

Building on decades of experience and a strong capital base, Argus provides a broad range of insurance, retirement and financial services to meet the needs of both businesses and individuals.

OUR VISION

Our vision is to be the customer's first choice for insurance, retirement and financial services. We are committed to providing our customers with financial security and peace of mind through innovative solutions, which provide excellent value.

OUR MISSION

We will achieve our vision by:

- Focusing first on the needs of the market segments we choose to serve
- Building upon the strength of the Argus name
- Introducing innovative products and enhancements
- Continuing to focus on direct distribution as our primary channel, while developing alternative channels such as intermediaries, strategic partnerships and technology
- Recruiting and retaining the very best people
- Developing knowledgeable people who provide fast, friendly and convenient service to our customers
- Developing our ability to perform as one cross-functional team
- Exploring opportunities to exploit our leading financial performance and capital position

In addition, Argus will look for growth opportunities by expanding into related business products and services.

OUR PHILOSOPHY AND VALUES

As we interact with our colleagues and meet our responsibilities to our customers, shareholders and the community, we welcome the challenge inherent in change, while adhering to values that remain constant.

- We do not compromise on individual or corporate honesty or integrity
- We respect every person as an individual
- We actively promote competence and professionalism within our organisation
- We achieve higher levels of performance through teamwork
- We recognise that fairness is critical in reaching decisions
- We promote and acclaim creativity as we strive to achieve our goals

THE ARGUS GROUP

ARGUS GROUP HOLDINGS LIMITED

Group Holding Company

ARGUS INSURANCE COMPANY LIMITED

Fire and Windstorm (Home and Commercial Property), Contractors' All Risks, Liability, Marine, Motor, Employer's Indemnity (Workers' Compensation)

CENTURION INSURANCE SERVICES LIMITED

Insurance Agent and Licensed Broker

ARGUS INSURANCE COMPANY (EUROPE) LIMITED, Gibraltar

Home and Commercial Property, Contractors' All Risks, Liability, Marine and Motor

WESTMED INSURANCE SERVICES LIMITED, Gibraltar

Insurance Brokerage and Agency

BERMUDA LIFE INSURANCE COMPANY LIMITED

Pensions, Group Life and Long-Term Disability Insurance, Individual Life and Annuities

ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

Individual Life and Annuities

ARGUS INTERNATIONAL LIFE INSURANCE LIMITED

Individual Life and Annuities (74% Interest)

BERMUDA LIFE WORLDWIDE LIMITED

Individual Life and Annuities (in run-off)

SOMERS ISLES INSURANCE COMPANY LIMITED

Group and Individual Health Insurance including: Major Medical, Dental and Vision Care

AFL INVESTMENTS LIMITED

Investment Management Services (60% Interest)

ARGUS INVESTMENT NOMINEES LIMITED

Nominee Company (60% Interest)

ARGUS INTERNATIONAL MANAGEMENT LIMITED

Company Management

ARGUS MANAGEMENT SERVICES LIMITED

Financial and General Management Services

DATA COMMUNICATIONS LIMITED

Information Systems

ST. MARTIN'S REINSURANCE COMPANY, LTD.

Financial Reinsurance (in run-off)

TROTT PROPERTY LIMITED

Property Holding Company

ARGUS PROPERTY (GIBRALTAR) LIMITED

Property Holding Company

FOGG INSURANCE AGENCIES LIMITED, Malta

Insurance Agent

Argus Group Holdings Limited is a public company, its shares trading on the Bermuda Stock Exchange. At March 31, 2012 it had 1,233 shareholders; 90 percent of whom were Bermudian, holding 83 percent of the issued shares.

BOARD OF DIRECTORS



Sheila E. Nicoll, FCI
CHAIRMAN



Alan R. Thomson
DEPUTY CHAIRMAN

Wendall S. F. Brown
Peter R. Burnim
John D. Campbell, QC, JP
Alison S. Hill, ACMA
CHIEF EXECUTIVE OFFICER
Sen. James S. Jardine, CA, FCIS, JP
Reginald S. Minors, JP
The Hon. Gerald D. E. Simons, OBE
Everard Barclay Simmons
Robert D. Steinhoff, FCA, JP

- COMMITTEES OF THE BOARD
- ● ● ● Audit Committee
 - ● ● Nominations and Governance Committee
 - ● ● Compensation Committee
 - ● ● Investment Committee
 - ● ● Succession Planning Committee

GROUP MANAGEMENT



Alison S. Hill, ACMA
CHIEF EXECUTIVE OFFICER



David W. Pugh, FCA
CHIEF FINANCIAL OFFICER



Michelle A. Jackson, MBA, MSc
EXECUTIVE VICE PRESIDENT
GROUP INSURANCE



Wanda E. Richardson, MA, SPHR
VICE PRESIDENT
ORGANISATIONAL DEVELOPMENT



Andrew I. Baker, FCI
CHIEF EXECUTIVE
ARGUS INSURANCE COMPANY (EUROPE) LIMITED



Cindy F. Campbell, CPA, MBA
CHIEF OPERATING OFFICER
AFL INVESTMENTS LIMITED



George N.H. Jones, MBA, LLB
GROUP COMPANY SECRETARY
& LEGAL ADVISOR



Sheena M. Smith, CPA
VICE PRESIDENT
FINANCE



Lauren M. Bell, FLMI, HIA, ACS
EXECUTIVE VICE PRESIDENT
LIFE & PENSIONS



John Doherty, CPCU, ARM, ARe
EXECUTIVE VICE PRESIDENT
PROPERTY & CASUALTY



Tyrone Montovio, ACII
GENERAL MANAGER
ARGUS INSURANCE COMPANY (EUROPE) LIMITED



Philip R. Trussell
VICE PRESIDENT & MANAGING DIRECTOR,
INTERNATIONAL LIFE



Andrew H. Bickham, ACII
EXECUTIVE VICE PRESIDENT
BROKING



Martin N. M. Gutteridge, BA, MA
EXECUTIVE VICE PRESIDENT
INFORMATION SYSTEMS



Onesimus Nzabalinda, MBA, MSc
HEAD OF COMPLIANCE
& RISK MANAGEMENT



Lynne Woolridge, FLMI, FALU, HIA
HEAD OF INTERNATIONAL LIFE



Alex Cabe, CFA
GROUP INVESTMENT MANAGER



Gary Hitchens
DIRECTOR
OF GLOBAL SALES & MARKETING



Larry A. Peck, FSA, FCIA, MAA
EXECUTIVE VICE PRESIDENT
GROUP ACTUARY

FIVE YEAR SUMMARY

Financial and Shareholder Data

	2012	2011	2010	2009	2008
FOR THE YEAR <i>(In \$ thousands)</i>					
Total revenue	154,787	138,188	131,679	32,146	138,224
Earnings/(Loss) for the year	1,696	(6,092)	(18,435)	(115,701)	15,479
Cash dividends	-	8,414	12,187	13,429	12,692
AT YEAR END <i>(In \$ thousands)</i>					
Total General Fund Assets	386,423	533,459	533,887	528,996	643,823
Shareholders' Equity	83,794	82,406	96,415	114,837	260,665
FINANCIAL RATIOS					
Earnings/(Loss) per share – fully diluted	\$0.08	\$(0.29)	\$(0.88)	(\$5.53)	\$0.73
Return on average Shareholders' Equity	2.04%	(6.81%)	(17.45%)	(61.62%)	7.07%
SHAREHOLDER DATA					
Shares in issue	21,511,163	21,511,163	21,511,163	21,485,744	21,441,618
Book value per share	\$3.90	\$3.83	\$4.48	\$5.34	\$12.16
NUMBER OF EMPLOYEES					
	201	199	171	176	173

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performance



Argus. Working for a brighter future

At The Reading Clinic, children are empowered to address and overcome their learning challenges and build on their strengths. Sponsoring their programmes underlines our strong belief that securing a better future takes effort and commitment.

REPORT TO SHAREHOLDERS

THE YEAR IN REVIEW

The Argus Group reports net earnings of \$1.7 million for the year ended March 31, 2012 compared to a loss of \$6.1 million for the previous year – a welcome return to profit after a challenging period. Although modest, this profit is underpinned by strong business fundamentals as stated in earlier reports to Shareholders. These are primarily: continued strong performance from the core business operations and the ongoing efforts to optimise the Balance Sheet and capital structure in a considered and orderly fashion.

Shareholders' Equity now stands at \$83.8 million, substantially in excess of the statutory capital required to conduct the Group's various insurance businesses.

Without investment-related losses during the year ended March 31, 2012, the earnings from operations would have produced net income of approximately \$18 million for the year, generated once again through achieving very high client retention levels while substantially exceeding our new business targets across most business lines. The main contributor to the investment-related losses was the write down of our investment in Northstar Group Holdings, Ltd. (Northstar) by \$11 million as disclosed in the Half Year Report to September 30, 2011 and as more fully reported in Note 4.2 to the attached financial statements. It is pleasing to report that by March 31, 2012, following interim distributions from contributed surplus to Northstar shareholders, Argus received over \$20 million in cash. The residual balance of the investment in Northstar is now represented by a fully collateralised and performing three-year loan of \$2 million to another Northstar shareholder. In the meantime, the Group continues to pursue the recovery of the recent \$11 million write down to the fullest extent afforded under law.

It is management's belief that this year-end result represents a significant milestone marking the end of challenging legacy issues in the investment arena. The Balance Sheet now faces substantially less exposure to risks arising from non-core investments and will enable the Group to build on its history of over 60 years' service to Bermuda. Despite less than favourable investment market conditions, the lingering recession and an increasingly competitive marketplace, the Group has attained its overall business targets and delivered a strong operating performance for the year ended March 31, 2012. Your Board and management are confident of the return to more 'normal' times for the Group.

In addition, the Group has made good strategic progress, focusing on markets where Argus can grow and earn higher returns. Accordingly, we remain confident the Argus Group is well positioned for the future.

During March 2012, A.M. Best recognised the success of our operating units and confirmed our financial strength of B++ (Good) and issuer credit ratings of bbb. Naturally, your Board and management are disappointed that they revised the outlook to negative from stable. Management are committed to addressing the comments made by A.M. Best.

During the year a number of the Group's insurance entities participated in the trial filings of new enhanced capital returns to our various regulators. Somers Isles Insurance Company and Argus Insurance Company Limited issued their first Commercial Insurer's Solvency Self-Assessment (CISSA) as part of the Bermuda Solvency Capital Requirement (BSCR) with the Bermuda Monetary Authority while Argus Insurance Company (Europe) Limited filed its Quantitative Impact Study 5 (QIS5) under Solvency II with the Financial Services

Commission in Gibraltar. These filings confirmed management's belief that the Group's insurance entities are more than adequately capitalised which ensures policyholder protection and will enable future growth of the Group.

During the year under review, the Company's share price fluctuated between \$5.25 and \$3.90. This should be compared to the book value of the Company's shares in issue, net of those held in Treasury, of \$3.98 per share at the Balance Sheet date.

The Board believes that it is important for the Group to maintain a capital base that is well in excess of the minimum statutory requirements. In July 2011, the Board decided to suspend temporarily the payment of a dividend to shareholders. Shareholders will note that the Board considers the declaration of a dividend each quarter and is determined to resume the payment of dividends from operating profits as soon as it is prudent to do so.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The accompanying audited annual financial statements have been prepared in accordance with IFRS for the first time. The Group's date of transition to IFRS was April 1, 2010. A full explanation of how the transition from Canadian Generally Accepted Accounting Principles (Canadian GAAP) to IFRS has affected the reported consolidated financial position, financial performance and cash flows of the Group is provided in Note 31. While the effects on the Group's earnings from reporting under IFRS versus Canadian GAAP were not material, the amount of disclosure in the attached Financial Statements has been substantially enhanced.

FINANCIAL RESULTS

The *Net Earnings for the Year attributable to Shareholders of the Company* for the year ended March 31, 2012 was \$1.7 million compared to a net loss of \$6.1 million for the

previous year. The *Earnings per share* was \$0.08 compared to a loss of \$0.29 per share last year.

As at March 31, 2012, *Total Assets* including *Segregated Fund Assets*, stood at \$1.7 billion, and *Shareholders' Equity* increased to \$83.8 million from \$82.4 million one year earlier.

Net premiums written increased by eight percent. This is as a result of a combination of new business and appropriate adjustments to premiums in order to achieve acceptable underwriting ratios. Overall, *Net Benefits and Claims* increased by seven percent over the prior year primarily due to higher claims in local and overseas healthcare services and in property and casualty businesses.

Investment income, Change in fair value of investments and Share of (loss)/earnings of associates continued to present challenges during the year ended March 31, 2012. The main contributing factors that suppressed investment earnings in the year were the provision of \$11 million against the Group's investment in Northstar, reductions of \$2 million in the equity pick up of *Investments in associates* in Bermuda due to the depressed local economy and net realised losses of \$3 million on the sale of certain equities.

Revenues from *Commissions, management fees and other* rose by seven percent compared to 2011, primarily reflecting the increase in the market value of assets under management in the Group's various investment-related businesses and the continued growth of ceding and profit commissions earned from property and casualty operations.

The increase in *Operating expenses and Amortisation and depreciation* is largely attributable to additional investment in the infrastructure of the European operations net of the one-off reduction in the prior year of the Group's *Post-employment benefits liability* of \$4.2 million.

Interest on loan has decreased with the continued reduction of the loan taken out to fund the construction of the corporate headquarters at 14 Wesley Street. This loan will be fully repaid in the forthcoming year which will eliminate all debt from the Group's Balance Sheet.

PROPERTY AND CASUALTY, BERMUDA

Despite intense and overtly aggressive competition in the marketplace, the division continues to maintain its approach of disciplined underwriting, combined with an ongoing commitment to superior, proactive customer service. This has resulted in high levels of retention, which, in turn, has produced a solid underwriting result for the year.

The fire portfolio, which protects our insureds from fire and windstorm damage among other perils, once again produced acceptable results. This is due to a catastrophe-free year, for which we are thankful, combined with cost containment measures which include cross-training, further streamlining of processes and the efficiencies delivered by our new underwriting administration platform.

The division recently launched an innovative new product "Home Essentials", aimed at our senior population. The product, which has been well received, is designed and priced to benefit this growing segment of our community, many of whom are on a fixed income.

The accident and marine portfolios performed within planned parameters and continue to contribute to the overall profitability of the division.

PROPERTY AND CASUALTY, EUROPE

This division operates in Gibraltar and Malta where, overall, double-digit premium growth was recorded for the fifth consecutive year as a result of further improvements in client retention and strong new business figures. Despite several large claims, including an October 2011 storm event in Gibraltar and a marine cargo loss in Malta, both territories increased under-

writing profits, and achieved further improvements in all key claims metrics.

In both jurisdictions there is evidence of increased cross-border competition. However, a number of opportunities to expand our operations further, both organically and strategically, are under active review for the forthcoming year.

The new underwriting administration platform, already successfully installed in Bermuda, was launched in Gibraltar in May 2012 and will be introduced into Malta later this year.

The investment in staff training has continued with over 50 percent of our European staff now studying for professional qualifications. The quality of our staff provides a sustainable competitive advantage in both markets.

GROUP HEALTH, LIFE AND LONG-TERM DISABILITY

Group health, along with our other group insurance products, life, long-term disability, short-term disability and workers' compensation performed in line with expectations this year despite the difficult economic environment.

Whilst business retention levels were high for group health, more employers reduced their level of benefit coverage and switched to lower cost plans. As more employers opt for these lower cost plans, the restricted benefit offerings in these plans have led to some containment of incurred claims. The division experienced further success in claims containment following a year of aggressive negotiations with overseas medical facilities and continuing efforts made locally to ensure that clients receive the best value services for their premium.

This division, which administers one of the largest health insurance portfolios in Bermuda, has recently completed its most challenging renewal period ever. Healthcare costs continue to rise at a rate well above

inflation at a time when the recession in Bermuda is threatening the very viability of many businesses. As a result, employers and their employees are finding it increasingly difficult to afford any increase in premiums. Two years ago Argus introduced its lower-cost option, the Signal Plan, which has proven to be very attractive to many employers who wish to contain health insurance premiums. Regrettably, an increase in premium delinquencies and a decline in the number of insureds as a result of business closures and redundancies have become evident. The reduction in the number of guest workers has led to an increase in the average age of Bermuda's insured population, which will lead to even higher claims costs in the future. The highly experienced team of experts at Argus Health is working closely with clients to explain these health insurance trends and to develop ways to maintain an adequate level of protection at an affordable premium. Every effort is also being made to contain health claims costs and internal administration costs so that these savings can be passed on to clients.

While Bermuda's system of health insurance has been successful for over 40 years, it is recognised as being no longer sustainable. The Government-sponsored National Health Plan aims to address the challenges of bringing healthcare inflation into line with the general level of inflation. Work to develop the details of the plan has begun and we are proud that five senior Argus employees were selected to serve on various task groups; namely, those dealing with benefit design, overseas care, health promotion and the all important finance and reimbursement task force.

One of the Group's core values is wellness. We believe that one way to control rising healthcare costs is to reduce the utilisation of services by living healthy lifestyles. This year, our Argus Wellness plan has continued actively to promote prevention and early detection.

In March 2012, the Argus annual health fair was redesigned and renamed the Argus Healthy Living Expo. This highly successful event was much larger than in previous years with more participants and visitors than ever before. However, the focus remains on getting Argus insureds and the wider community excited about healthy living, exercise and wellness.

PENSIONS

Despite the ongoing volatility in investment markets, pension assets under management have continued to increase and the client base has remained stable over the year. The economic downturn has resulted in several business closures, staff terminations and early retirement of employees. Argus Pensions experts have been on hand to provide assistance and support to employees and employers during these very challenging times.

Two legislative changes have been introduced to provide relief to pension plan members and employers who may be facing financial challenges. Financial Hardship Withdrawal Regulations were introduced in July 2010. Since then close to \$1 million has been withdrawn by Argus pension plan members, with 50 percent of the withdrawals being used for educational purposes.

The National Pension Scheme (Occupational Pensions) Temporary Amendment Act 2012 (the Act) has recently been passed by the legislature. The Act, which came into operation on August 1, 2012, allows employers and/or members temporarily to suspend mandatory pension contributions within the twelve months from the commencement date by mutual agreement. The amendment, which applies to registered plans only, has been introduced to provide relief for employers and/or members who may be facing financial difficulties due to the current challenges in the local economy. Argus is helping employers to understand the long-term financial impact of a temporary contribution suspension so that they can provide the right advice to their employees.



Argus. Strength through teamwork.

The Bermuda Sloop Foundation is positioned to teach young adults to build strength and knowledge in the skills of leadership, teambuilding and personal development through learning experiences aboard the Spirit of Bermuda. These are attributes that align with our values, which is why we have chosen to provide the office space they need to fulfil this worthy endeavour.

At the year end, Argus Pensions completed the transfer of all remaining group pension investments into a separate account under *Segregated Fund Assets*. This means that such assets are legally “ring fenced” and kept separate from any and all other liabilities and creditors of the Argus Group.

During the year, Argus Pensions announced several initiatives that include the following:

- The launch of a 401k plan with US partners to allow American employees to take advantage of tax relief under section 401(k) of the US Internal Revenue Code.
- An expanded selection of self-directed investment options that allows members to choose from world-class funds. The self-directed option is most appropriate for sophisticated investors or those who have independent investment advisors who can assist with the selection and monitoring of the fund choices.
- An expanded selection of complimentary market updates, educational workshops and retirement planning sessions geared to individuals at various stages of their lives.
- The introduction of a number of calculators on the Argus Group website, www.argus.bm to assist employees with preparing for their retirement, reaching a personal financial goal or determining how much they should be setting aside for their children’s education. These tools are user-friendly and designed specifically for residents of Bermuda.

INTERNATIONAL LIFE AND ANNUITIES

Through a combination of portfolio acquisition and new sales of life and annuity policies globally, over \$38 million of new premium was received in Segregated Funds in the year ended March 31, 2012. Equity markets gained significantly in the final quarter of 2011 through the first quarter of 2012 which led to increased fee income on existing business. As at March 31, 2012, the pipeline of new enquiries had gained momentum

and has increased significantly over previous years. Management remains confident that this division will increase its contribution to the Group’s net earnings in the years to come.

AFL INVESTMENTS (AFL)

As the volatility in world markets continued this year, our clients have appreciated AFL’s focus on portfolio risk mitigation. One of the major challenges for investors has been the continuing low interest rate environment and AFL is pleased to announce the addition of another of the world’s leading fixed income managers, Income Research & Management, Inc. to its impressive list of fund managers.

For some time, AFL has noticed that small to medium sized institutional clients on island had very few innovative investment options available to them. AFL successfully launched a new product line through the introduction to Bermuda of institutional and captive products used by our joint venture partner, Cidel Bank & Trust Inc. Strong interest has been shown to date towards these products.

SALES AND MARKETING

The strategy of building long-term value-adding relationships with clients has been critical to the Group’s client retention strategy throughout the year. Although competitors continued to approach the Argus client base, our clients have remained loyal and we are very grateful for their continued support.

The Group’s growth strategy in 2012 has been focused on maintaining underwriting integrity, managing for value rather than volume, and cross-selling to existing clients both in Bermuda and in Europe.

We aim to continue to be the best choice to provide protection and prosperity to business clients and their employees, along with helping customers to manage the risks of everyday living and protecting them long into the future.

It is clear in these challenging times that expanding our product range and building a diverse range of distribution channels is key as our customers demand more choice and greater flexibility.

Continued growth in sales this year demonstrated the strength and depth of the Argus Group across all lines of business and distribution channels, including commercial property, personal lines, international life and group employee benefits.

INFORMATION TECHNOLOGY (IT)

The Group performed a strategic review of its use of technology in the latter part of the year following the arrival of the new Vice President, IT. As a consequence, a migration away from legacy systems has now commenced, along with a move towards industry standard development and application platforms. This will allow the Group to provide IT capabilities more efficiently and quickly than before.

The benefits of this approach are already being seen with the delivery of a common property and casualty underwriting administration application across all jurisdictions in which the Argus Group operates.

IT is working to ensure that there are technology platforms and solutions in place that can be utilised throughout the Group, regardless of where they are located or maintained. The increasing need to support clients and colleagues on a 24/7 basis is leading to the development of centres of excellence that can be leveraged everywhere within the Group through the focused use of technology.

RISK & COMPLIANCE GOVERNANCE

The risk management and internal control framework within the Group is based upon the Bermuda Monetary Authority's (the BMA) Insurance Code of Conduct (the Code), Solvency II directives, Committee of Sponsoring Organisations of the Treadway Commission's (COSO) Internal Control – Integrated Framework, and Risk

Management – Principles and Guidelines, International Organisation for Standardisation (ISO 31000, 2009).

During the year, the BMA conducted an on-site assessment of the compliance by the Group with the Code and an implementation plan for Solvency II was submitted to the regulators in Gibraltar and Malta. Further, Group-wide risk assessment workshops were conducted along with continued training courses for all staff in the Group's anti-money laundering and anti-terrorist financing policies and procedures.

HUMAN RESOURCES

In September 2011, Mr. Martin Gutteridge, a Bermudian, joined the Group as Head of IT. In this position, he develops overall corporate information systems strategy, identifies new computer technology and determines applicability to the organisation's long-term business needs.

In June 2012, another Bermudian, Mrs. Lynne Woolridge, joined as the Head of International Life responsible for the overall management and development of the Group's life and annuity operations.

Also in June 2012, Mr. Alex Cabe was hired as Group Investment Manager after an extensive recruitment process which began in October 2011. In this new role, Mr. Cabe will actively drive the adoption, continuous development and improvement of the investment management processes and practices.

Mr. Gerald Simons retired as President in May 2012, after over 40 years of service with the Argus Group. He remains as a non-executive Board member of Argus Group Holdings Limited and as a consultant to the management team particularly on matters relating to the National Health Plan.

The ongoing success of the Argus Group is dependent on the quality, capability and engagement of our staff. A number of important staff-related initiatives have been implemented during the year, that continue to

develop the Argus customer-focused approach. The Effective Personal Productivity training programme is aimed at focusing leadership efforts on successful achievement of our highest business priorities. A cross-functional business process improvement methodology was introduced to enhance our client delivery processes. A new system was launched to improve the responsiveness to customer feedback, enhance operational procedures and to ensure compliance with the BMA Insurance Code of Conduct. Employee engagement is critical to our success. A strategy promoting cross-functional initiatives including company-wide workgroups and 'Ideas to Action' teams was implemented. The Group continued to measure the level of staff engagement via completion of our second annual employee opinion survey.

COMMUNITY

The Argus Group takes its responsibility to support the community very seriously, particularly during periods of social and economic turmoil. The Group actively supports organisations and community events for the benefit of all in Bermuda. The Group's corporate giving programme continues to focus on the theme of prevention as Argus is in the business of helping our clients prevent financial and physical misfortune. Argus has supported a selection of charities that are making a positive difference in the community and in the lives of young people in particular. Our largest donation was to The Reading Clinic to help expand their facilities and the number of children that they can support. Other charity partnerships in the year were: Bermuda Heart Foundation, Crime Stoppers Bermuda, Bermuda Diabetes Association, Knowledge Quest, Big Brothers Big Sisters of Bermuda, Bermuda School of Music and the Bermuda Sloop Foundation.

FORWARD LOOKING STATEMENTS

Certain statements in this report may be deemed to include 'forward looking statements' and are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors including worldwide economic conditions, success in business retention and obtaining new business and other factors.

NOTE OF APPRECIATION

On behalf of your Board and Management, we would like to express our appreciation to Mr. Christopher Trott who retired from the Board of Argus Group Holdings Limited during the period under review. We thank him for his many years of service.

Finally, we wish to thank our Shareholders and customers for their continued support, and acknowledge and commend the hard work and commitment of our staff.



Sheila E. Nicoll
CHAIRMAN



Alison S. Hill
CHIEF EXECUTIVE OFFICER

August 6, 2012



progression



Argus. Creating meaningful partnerships

The vision of Big Brothers Big Sisters of Bermuda is to create consistent, long-term relationships between our young people and positive role models so that they can reach their full potential. We believe this shows commitment to sustainability in Bermuda's future, a trait we support wholeheartedly.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements and other financial information in this Annual Report have been prepared by the Group's management, which is responsible for their integrity, consistency, objectivity and reliability. To fulfill this responsibility, the Group maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate to provide a high degree of assurance that relevant and reliable financial information is produced and assets are safeguarded. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance, and the communication of policies and a code of conduct throughout the Group. In addition, the Group maintains an Internal Auditor who conducts periodic audits of all aspects of the Group's operations. The Internal Auditor has full access to the Audit Committee.

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards and, where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Annual Report is generally consistent with the information contained in the accompanying consolidated financial statements.

KPMG, the independent chartered accountants appointed by the Shareholders, have examined the consolidated financial statements set out on pages 16 through 81 in accordance with International Standards on Auditing to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is shown opposite.

The consolidated financial statements have been further reviewed and approved by the Board of Directors acting through the Audit Committee, which is comprised of directors who are not officers or employees of the Group. The Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors, oversees management's responsibilities for the financial reporting and internal control systems. The auditors have full and direct access to the Audit Committee and meet periodically with the committee, both with and without management present, to discuss their audit and related findings.

These consolidated financial statements were authorised for issue by the Board of Directors on August 6, 2012.



Alison S. Hill
CHIEF EXECUTIVE OFFICER



David W. Pugh
CHIEF FINANCIAL OFFICER

August 6, 2012

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ARGUS GROUP HOLDINGS LIMITED AND SUBSIDIARIES

We have audited the accompanying consolidated financial statements of Argus Group Holdings Limited (the Group), which comprise the consolidated balance sheets as at March 31, 2012, March 31, 2011 and April 1, 2010, and the consolidated statements of operations, comprehensive income/(loss), changes in equity and cash flows for the years ended March 31, 2012 and March 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Argus Group Holdings Limited as at March 31, 2012, March 31, 2011 and April 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

August 6, 2012



Chartered Accountants
Hamilton, Bermuda

CONSOLIDATED BALANCE SHEET

<i>(In \$ thousands)</i>	Note	MARCH 31 2012	MARCH 31 2011	APRIL 1 2010
ASSETS				
Cash and short-term investments		46,127	26,245	22,313
Interest and dividends receivable		404	850	820
Investments	3	185,068	304,394	360,149
Investment in associates	4	11,404	46,449	13,633
Receivable for investments sold		-	12,672	-
Insurance balances receivable	5	22,164	18,372	10,463
Reinsurers' share of:				
Claims provisions	12	11,573	13,758	18,058
Unearned premiums	12	10,860	10,463	9,811
Investment properties	6	7,010	7,006	6,949
Other assets	7	7,083	6,393	6,166
Deferred policy acquisition costs	8	2,295	2,135	1,746
Property and equipment	9	75,648	76,754	77,656
Intangible assets	11	6,787	7,968	6,123
TOTAL GENERAL FUND ASSETS		386,423	533,459	533,887
TOTAL SEGREGATED FUND ASSETS	27	1,334,693	1,162,743	1,169,276
TOTAL ASSETS		1,721,116	1,696,202	1,703,163
LIABILITIES				
Insurance contract liabilities	12	190,932	184,563	184,466
Insurance balances payable	16	12,751	14,613	9,468
Investment contract liabilities	13	69,764	192,059	180,290
Payable for investments purchased		-	20,821	-
Tax payable		188	249	121
Accounts payable and accrued liabilities		14,730	17,088	15,885
Dividend payable		-	2,103	2,103
Note payable		-	-	16,750
Loan payable	17	7,843	13,843	19,843
Post-employment benefit liability	15	4,078	3,625	6,076
TOTAL GENERAL FUND LIABILITIES		300,286	448,964	435,002
TOTAL SEGREGATED FUND LIABILITIES	27	1,334,693	1,162,743	1,169,276
TOTAL LIABILITIES		1,634,979	1,611,707	1,604,278
EQUITY				
Attributable to Shareholders of the Company				
Share capital		16,433	16,426	16,436
Contributed surplus		52,737	52,629	52,382
Retained earnings		15,913	14,217	28,723
Accumulated other comprehensive loss		(1,289)	(866)	(1,126)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		83,794	82,406	96,415
Attributable to non-controlling interests		2,343	2,089	2,470
TOTAL EQUITY		86,137	84,495	98,885
TOTAL EQUITY AND LIABILITIES		1,721,116	1,696,202	1,703,163

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended March 31 (In \$ thousands, except per share data)

	Note	2012	2011
REVENUE			
Gross premiums written		167,985	157,087
Reinsurance ceded		(42,507)	(41,175)
Net premiums written		125,478	115,912
Net change in unearned premiums	19	274	(624)
Net premiums earned		125,752	115,288
Investment income	3.6	3,862	3,101
Change in fair value of investments	3.7	3,805	(12,840)
Share of (loss)/earnings of associates	4	(12,197)	1,312
Commissions, management fees and other	22	33,565	31,327
		154,787	138,188
EXPENSES			
Policy benefits		15,927	15,062
Claims and adjustment expenses		91,077	88,281
Reinsurance recoveries	20	(11,126)	(9,300)
Gross change in contract liabilities	21	6,301	(994)
Change in reinsurers' share of claims provisions	21	2,180	4,376
NET BENEFITS AND CLAIMS		104,359	97,425
Commission expenses		3,481	3,234
Operating expenses	23	39,007	36,357
Amortisation and depreciation	9 ; 11	5,350	5,857
Interest on loan	17	528	812
		152,725	143,685
EARNINGS/(LOSS) BEFORE INCOME TAXES		2,062	(5,497)
Income taxes	26	112	176
NET EARNINGS/(LOSS) FOR THE YEAR		1,950	(5,673)
Attributable to:			
Shareholders of the Company		1,696	(6,092)
Non-controlling interests		254	419
		1,950	(5,673)
Earnings/(loss) per share:	18		
<i>basic</i>		0.08	(0.29)
<i>fully diluted</i>		0.08	(0.29)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

For the years ended March 31 (In \$ thousands)

	2012	2011
NET EARNINGS/(LOSS) FOR THE YEAR	1,950	(5,673)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Change in unrealised losses on available for sale investments		
Unrealised losses arising during the year	(35)	(691)
Share of other comprehensive income/(loss) of associates		
Unrealised gains arising during the year	-	354
Reclassification of realised gains to net earnings/(loss)	(305)	(218)
Change in unrealised (losses)/gains on translating financial statements of foreign operations	(83)	815
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	(423)	260
COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	1,527	(5,413)
OTHER COMPREHENSIVE (LOSS)/INCOME ATTRIBUTABLE TO:		
Shareholders of the Company	(423)	260
Non-controlling interests	-	-
	(423)	260
COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:		
Shareholders of the Company	1,273	(5,832)
Non-controlling interests	254	419
	1,527	(5,413)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended March 31 (In \$ thousands)

	Note	2012	2011
SHARE CAPITAL			
Authorised:			
25,000,000 common shares of \$1.00 each (2011 – 25,000,000)		25,000	25,000
Issued and fully paid, beginning of year 21,511,163 shares (2011 – 21,511,163 shares)		21,511	21,511
Deduct: Shares held in Treasury, at cost 478,223 shares (2011 – 478,931 shares)		(5,078)	(5,085)
TOTAL, NET OF SHARES HELD IN TREASURY, END OF YEAR		16,433	16,426
CONTRIBUTED SURPLUS			
Balance, beginning of year		52,629	52,382
Stock-based compensation expense	24	108	247
BALANCE, END OF YEAR		52,737	52,629
RETAINED EARNINGS			
Balance, beginning of year		14,217	28,723
Net earnings/(loss) for the year		1,696	(6,092)
Cash dividends		-	(8,414)
BALANCE, END OF YEAR		15,913	14,217
ACCUMULATED OTHER COMPREHENSIVE (LOSS)/INCOME			
Balance, beginning of year		(866)	(1,126)
Change in unrealised losses on available-for-sale investments		(35)	(691)
Share of other comprehensive (loss)/income of associates		(305)	136
Change in unrealised (losses)/gains on translating financial statements of foreign operations		(83)	815
BALANCE, END OF YEAR	29	(1,289)	(866)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		83,794	82,406
Attributable to non-controlling interests			
Balance, beginning of year		2,089	2,470
Net earnings for the year		254	419
Cash dividends		-	(800)
TOTAL EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		2,343	2,089
TOTAL EQUITY		86,137	84,495

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended March 31 (In \$ thousands)

	2012	2011
OPERATING ACTIVITIES		
Earnings/(loss) before income taxes	2,062	(5,497)
Adjustments to reconcile net earnings/(loss) to cash basis (Footnote (i) below)	11,422	17,454
Change in operating balances (Footnote (ii) below)	14,772	10,129
Interest income received	5,316	4,484
Dividend income received	1,344	2,817
Income tax paid	(172)	(57)
CASH GENERATED FROM OPERATING ACTIVITIES	34,744	29,330
INVESTING ACTIVITIES		
Purchase of investments	(1,761,683)	(556,968)
Sale of investments	1,895,862	570,378
Transfer of investments to segregated funds	(136,889)	-
Purchase of subsidiary, net of cash acquired	-	(2,619)
Purchase of property and equipment	(3,254)	(3,760)
Purchase of intangible assets	(251)	-
CASH USED IN/GENERATED FROM INVESTING ACTIVITIES	(6,215)	7,031
FINANCING ACTIVITIES		
Dividends paid to Shareholders	(2,103)	(8,414)
Dividends paid to non-controlling interests	-	(800)
Acquisitions of shares held in Treasury	7	(10)
Repayment of note payable	-	(16,750)
Repayment of loan	(6,000)	(6,000)
Interest paid on loan	(528)	(812)
CASH USED IN FINANCING ACTIVITIES	(8,624)	(32,786)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND SHORT-TERM INVESTMENTS	(23)	357
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	19,882	3,932
CASH AND SHORT-TERM INVESTMENTS, beginning of year	26,245	22,313
CASH AND SHORT-TERM INVESTMENTS, end of year	46,127	26,245
<i>Footnotes</i>		
(i) Interest income	(8,985)	(9,027)
Dividend income	(1,942)	(4,226)
Investment income related to the Deposit administration pension plans	4,713	5,924
Net realised gains/(losses) on sale of investments	1,406	(11,774)
Amortisation of net premium/discount of bonds	1,141	611
Change in fair value of investments	(3,797)	12,840
Impairment losses	711	17,502
Share of loss/(earnings) of associates	12,197	(1,312)
Change in fair value of investment property	(8)	-
Depreciation of property and equipment	4,359	4,719
Amortisation of intangible assets	991	1,138
Interest on loan	528	812
Expense on vesting of stock-based compensation	108	247
	11,422	17,454
(ii) Insurance balances receivable	(3,805)	(6,319)
Reinsurers' share of:		
Claims provisions	2,179	4,395
Unearned premiums	(404)	(537)
Other assets	(693)	(235)
Deferred policy acquisition costs	(165)	(302)
Insurance contract liabilities	6,426	(844)
Insurance balances payable	(1,858)	5,106
Investment contract liabilities	14,594	11,769
Accounts payable and accrued liabilities	(1,955)	(453)
Post-employment benefit liability	453	(2,451)
	14,772	10,129

See accompanying notes to the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(In \$ thousands except for per share amounts and where otherwise stated)

1 OPERATIONS

Argus Group Holdings Limited (the Company) was incorporated in Bermuda with limited liability on May 26, 2005 as a holding company and has its registered office at the Argus Building, 14 Wesley Street, Hamilton HM11, Bermuda. The Company and its subsidiaries (the Group) operates predominantly in Bermuda, Gibraltar and Malta underwriting life, health, property and casualty insurance. The Group also provides investment, savings and retirement products, and offers a range of administrative services including company management and accounting services.

The Company's subsidiaries are as follows:

Argus Insurance Company Limited	Fogg Insurance Agencies Limited, <i>Malta</i>
Centurion Insurance Services Limited	AFL Investments Limited
Argus Insurance Company (Europe) Limited, <i>Gibraltar</i>	Argus Investment Nominees Limited
Westmed Insurance Services Limited, <i>Gibraltar</i>	Argus International Management Limited
Bermuda Life Insurance Company Limited	Argus Management Services Limited
Argus International Life Bermuda Limited	Data Communications Limited
Argus International Life Insurance Limited	St. Martin's Reinsurance Company, Ltd.
Bermuda Life Worldwide Limited	Trott Property Limited
Somers Isles Insurance Company Limited	Argus Property (Gibraltar) Limited

On March 31, 2012, Argus Property Limited amalgamated with Bermuda Life Insurance Company Limited.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the consolidated financial statements are discussed below and are applied consistently.

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the Group's first consolidated financial statements prepared in accordance with IFRS.

The Group's date of transition to IFRS was April 1, 2010 (date of transition). An explanation of how the transition from Canadian Generally Accepted Accounting Principles (Canadian GAAP) to IFRS has affected the reported consolidated financial position, financial performance and cash flows of the Group is provided in Note 31.

2.2 BASIS OF PRESENTATION

2.2.1 Basis of measurement

The consolidated financial statements have been compiled on the going concern basis and prepared on the historical cost basis except for the following material items on the Consolidated Balance Sheet:

- Financial assets and financial liabilities at fair value through profit or loss (FVTPL) are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Derivative financial instruments are measured at fair value;
- Investment properties are measured at fair value;
- Certain segregated fund assets and liabilities are measured at fair value; and
- Post-employment benefit liability is measured at the present value of the defined benefit obligation.

The Consolidated Balance Sheet is presented in order of decreasing liquidity.

2.2.2 Presentation currency

All amounts, excluding per share data or where otherwise stated, are in thousands of Bermuda dollars, which is the Group's presentation currency and which is on par with U.S. dollars.

2.2.3 Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results will differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 2.4 – foreign currency translation;

Note 2.9 – insurance contracts and investment contracts;

Note 2.16 and *Note 30.1* – leases and operating leases;

Note 4 – investment in associates; and

Note 6 – investment properties.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

Note 2.7 – impairment of assets;

Note 3 and *Note 13* – investments and investment contract liabilities;

Note 12 – insurance contract liabilities; and

Note 15 – post-employment benefit liability.

2.3 BASIS OF CONSOLIDATION

2.3.1 Business combinations

Acquisitions on or after April 1, 2010

The Group uses the acquisition method to account for the acquisition of subsidiaries. At the date of acquisition, the Group recognises the identifiable assets acquired and liabilities assumed as part of the overall business combination transaction at their fair value. Recognition of these items is subject to the definitions of assets and liabilities in accordance with the International Accounting Standards Board's (IASB) Framework for the Preparation and Presentation of Financial Statements. The Group may also recognise intangible items not previously recognised by the acquired entity, such as customer lists.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date. Transaction costs that the Group incurs in connection with the business combination are expensed as incurred.

Acquisitions prior to April 1, 2010

As part of its transition to IFRS, the Group elected to restate only those business combinations that occurred on or after April 1, 2010. In respect of acquisitions prior to April 1, 2010, the non-controlling interest and transaction cost represent the amount recognised under Canadian GAAP.

Amalgamation transactions

Under a business combination where entities under common control are amalgamated, the carrying values of the assets and liabilities of the entities are combined, with any gain or loss on amalgamation recognised in equity. Transactions arising from the amalgamation of the entities under common control are eliminated in the Group's consolidated financial statements.

2.3.2 Subsidiaries

The Group's consolidated financial statements include the financial statements of the Company and its subsidiaries after all significant intercompany accounts and transactions have been eliminated. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

Control is defined as the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. This is assessed from both a legal and economic perspective. Entities are fully consolidated from the date control is obtained by the Company or one of its subsidiaries.

Losses applicable to the non-controlling interest in a subsidiary are allocated to non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

2.3.3 Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operational policies. Significant influence is normally presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investment in associates is initially recognised at cost, which includes transaction costs. Thereafter, these investments are measured using the equity method. Under the equity method, the Group records its proportionate share of income and loss from such investments on the Consolidated Statement of Operations and its proportionate share of Other Comprehensive Income on the Consolidated Statement of Comprehensive Income/(Loss). Certain associates have different accounting policies from the Group and, as a result, adjustments have been made to align the associate's accounting policies with the Group.

When the Group's share of losses exceeds its interest in an Investment in associates, the carrying amount of that interest is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

2.4 FOREIGN CURRENCY TRANSLATION

2.4.1 Translation of transactions in foreign currencies

The individual financial statements of the Company and its subsidiaries are prepared in the currency in which they conduct their ordinary course of business, which is referred to as the functional currency. Monetary assets and liabilities denominated in currencies other than the functional currency of the Company or its subsidiaries are translated into the functional currency using rates of exchange at the balance sheet date. Income and expenses are translated at rates of exchange in effect on the transaction dates. Foreign exchange gains and losses are reflected in Operating expenses on the Consolidated Statement of Operations.

2.4.2 Translation to the presentation currency

The financial statements of foreign operations are translated from their respective functional currencies to Bermuda dollars, the Group's presentation currency. Assets and liabilities are translated at the rates of exchange at the balance sheet date, and income and expenses are translated using the average rates of exchange. The accumulated gains or losses arising from translation of functional currencies to the presentation currency are included in Other comprehensive income on the Consolidated Statement of Comprehensive Income/(Loss).

2.5 CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments include cash balances and time deposits with maturities of three months or less at the date of purchase. Interest on these balances is recorded on the accrual basis and included in Investment income. The carrying value of Cash and short-term investments approximates their fair value.

2.6 FINANCIAL INSTRUMENTS

2.6.1 Financial assets

2.6.1(a) Classification and recognition of financial assets

The Group has the following financial assets: (i) financial assets at FVTPL, (ii) held-to-maturity financial assets, (iii) loans and receivables and (iv) available-for-sale financial assets. Management determines the classification at initial recognition.

(i) FVTPL

A financial asset is classified at FVTPL if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated at FVTPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

Attributable transaction costs upon initial recognition are recognised in Investment income on the Consolidated Statement of Operations as incurred. FVTPL financial assets are measured at fair value, and changes therein are recognised in Change in fair value of investments on the Consolidated Statement of Operations. Dividends earned on equities are recorded in Investment income on the Consolidated Statement of Operations.

(ii) Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Amortisation of premiums and accretion of discounts are included in Investment income on the Consolidated Statement of Operations.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

For the purposes of this classification, Loans and receivables are comprised of Mortgages and loans, Receivables from reverse repurchase transactions, Interest and dividends receivable, Receivable for investments sold and Other receivables in Other assets on the Consolidated Balance Sheet.

Receivables from reverse repurchase transactions are carried at their initial acquisition cost with the difference between the acquisition cost and the selling price being recognised as Investment income on the Consolidated Statement of Operations. Reverse repurchase transactions are short-term holdings and are secured by collateral.

Interest and dividends receivable, Receivable for investments sold and Other receivables in Other assets are short-term in nature and their carrying values approximate their fair values.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are not classified in any of the previous categories. Certain equity securities of the Group are classified as available-for-sale financial assets. These equities are subsequently carried at fair value except unquoted equities, which are carried at cost. Changes in fair value other than impairment losses are recognised in Other comprehensive income and presented on the Consolidated Statement of Comprehensive Income/(Loss). When an investment is derecognised, the cumulative gain or loss in Other comprehensive income is transferred to the Consolidated Statement of Operations. Dividends earned on equities are recorded in Investment income on the Consolidated Statement of Operations.

The Group initially recognises loans and receivables at their date of inception. All other financial assets (including assets designated at FVTPL) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected on the Consolidated Balance Sheet as Receivable for investments sold and Payable for investments purchased.

2.6.1(b) Derecognition and offsetting

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, which is normally the trade date. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented on the Consolidated Balance Sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.6.2 Financial Liabilities

2.6.2 (a) Classification and recognition of financial liabilities

The Group has the following financial liabilities: (i) financial liabilities at FVTPL and (ii) other financial liabilities. Management determines the classification at initial recognition.

(i) FVTPL

The Group's financial liabilities at FVTPL relate to deposit accounted annuity policies shown under Investment contract liabilities on the Consolidated Balance Sheet. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. Changes in fair value of investment contract liabilities are recorded in Gross change in contract liabilities on the Consolidated Statement of Operations (Note 2.9.2).

(ii) Other financial liabilities

All remaining financial liabilities are classified as other financial liabilities which include Investment contract liabilities related to the deposit administration pension plans and funding group policies (Note 2.9.2), Payable for investments purchased, Note payable, Loan payable, Dividends payable and Accounts payable and accrued liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Payable for investments purchased, Dividends payable, Accounts payable and accrued liabilities are considered short-term payables with no stated interest. The carrying amounts approximate fair value at the reporting date.

The Group initially recognised Note payable and Loan payable on the date that they originated. All other financial liabilities (including liabilities designated at FVTPL) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

2.6.2 (b) Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

2.6.3 Derivative financial assets

Investments in derivative instruments are measured at FVTPL and are considered to be held for trading. Derivatives are initially recognised at estimated fair value on the date into which a contract is entered. The attributable transaction costs are recognised on the Consolidated Statement of Operations as incurred. These investments in derivative instruments are subsequently carried at estimated fair value. Changes in the estimated fair value of instruments that do not qualify for hedge accounting are recognised in the Change in fair value of investments on the Consolidated Statement of Operations. The Group does not hold any derivatives classified as hedging instruments. Derivative financial assets and liabilities are reported net under Investments on the Consolidated Balance Sheet.

2.6.4 Investment income

Interest and dividend income are recorded as they accrue, using the effective interest method, in Investment income on the Consolidated Statement of Operations. Dividend income is recognised on the date the Group's right to receive payment is established which, in the case of quoted securities, is normally the ex-dividend date.

2.7 IMPAIRMENT OF ASSETS**2.7.1 Impairment of financial assets**

The carrying amounts of the Group's financial assets, except those classified under FVTPL, are reviewed at each reporting date for impairment and reversal of previously recognised impairment losses. These assets are considered impaired if there is objective evidence of impairment as a result of one or more loss events that have an impact that can be reliably estimated on the estimated future cash flows of the asset. Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to, the following:

- negative rating agency announcements in respect of investment issuers and debtors;
- significant reported financial difficulties of investment issuers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability; and
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset.

2.7.1 (a) Held-to-maturity financial assets and Loans and receivables

The Group considers evidence of impairment for Held-to-maturity investment assets and Loans and receivables at both a specific asset and collective level. All individually significant Held-to-maturity financial assets and Loans and receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Held-to-maturity financial assets and Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together investments with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgments as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. If

there is objective evidence that an impairment loss on Held-to-maturity financial assets or Loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The impairment loss is recognised in Investment income on the Consolidated Statement of Operations and reflected in an allowance account against the Held-to-maturity financial assets or Loans and receivables.

When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in Investment income on the Consolidated Statement of Operations.

2.7.1 (b) Available-for-sale financial assets

Impairment losses are recognised in Investment income on the Consolidated Statement of Operations when the investment is considered to be other than temporarily impaired. Other than temporary impairment occurs when fair value has declined significantly below cost for a prolonged period of time and there is no objective evidence to support recovery in value. When there is objective evidence that an available-for-sale asset is impaired and the decline in value is considered other than temporary, the loss accumulated in Other Comprehensive Income is reclassified to the Consolidated Statement of Operations in Investment income. The cumulative loss reclassified amount is the difference between the cost and the current fair value less any impairment loss recognised previously in Investment income on the Consolidated Statement of Operations. Impairment losses on available-for-sale equity securities are not reversed.

2.7.2 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets comprising of Investment in associates, Investment properties, Property and equipment and Intangible assets are reviewed at each reporting date to determine if there is objective evidence of impairment. Objective factors that are considered when determining whether a non-financial asset may be impaired include, but are not limited to, the following:

- adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability;
- the likelihood of accelerated obsolescence arising from the development of new technologies and products; and
- the disintegration of the active market(s) to which the asset is related.

If objective evidence of impairment exists, then the asset's recoverable amount is estimated. An impairment loss is recognised in Investment income on the Consolidated Statement of Operations if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Assets which cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

2.8 INVESTMENT PROPERTIES

Investment properties are real estate and real estate fractional units primarily held to earn rental income or held for capital appreciation. Rental income from investment properties is recognised on a straight-line basis over the term of the lease. Properties that do not meet these criteria are classified as Property and equipment. Expenditures related to ongoing maintenance of properties incurred subsequent to acquisition are expensed. Investment properties are initially recognised at the transaction price including acquisition costs on the Consolidated Balance Sheet. These properties are subsequently measured at fair value with changes in values recorded in Change in fair value of investments on the Consolidated Statement of Operations.

Fair values are evaluated regularly by an accredited independent valuation specialist to reflect market conditions at the reporting date.

2.9 INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

2.9.1 Insurance contracts

Insurance contracts are those contracts where the Group has accepted significant insurance risk from the policyholders by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

2.9.1 (a) Premiums and acquisition costs

Premiums written from the Group's Property and casualty and Insured employee benefits operating segments as

defined in Note 2.18 are recognised as revenue over the terms of the policies. The reserve for Unearned premiums represents that portion of premiums written that relates to the unexpired terms of the policies and are included in Insurance contract liabilities on the Consolidated Balance Sheet. Life and annuity premiums are recognised as income when due.

Costs relating to the acquisition of property and casualty and insured employee benefits premiums are charged to income over the period of the policy. Acquisition costs are comprised of commissions and those associated with unearned premiums are deferred and are amortised to income over the periods in which the premiums are earned. This is shown as Deferred policy acquisition costs on the Consolidated Balance Sheet. Policy acquisition costs related to unearned premiums are only deferred to the extent that they can be expected to be recovered from the unearned premiums. If the unearned premiums are insufficient to pay expected claims and expenses, a premium deficiency is recognised by writing down the deferred acquisition cost asset.

2.9.1 (b) Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are recognised when due and measured on initial recognition at the fair value of the consideration receivable or payable. Subsequent to initial recognition, Insurance balances receivable and Insurance balances payable are measured at amortised cost. The carrying value is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in Operating expenses on the Consolidated Statement of Operations.

Insurance balances receivable and Insurance balances payable are derecognised when the derecognition criteria for financial assets and financial liabilities, as described in Note 2.6 have been met.

2.9.1 (c) Reinsurance

Reinsurance ceded premiums comprise the cost of reinsurance contracts into which the Group has entered. Reinsurance premiums are recognised from the date the reinsurer has contracted to accept the risks and the amount of premium can be measured reliably. The provision for Reinsurers' share of unearned premium represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles and are shown under Insurance balances payable on the Consolidated Balance Sheet. The Reinsurers' share of claims provisions are estimated using the same methodology as the underlying losses. These represent the benefit derived from reinsurance agreements in force at the date of the Consolidated Balance Sheet. Amounts due to or from reinsurers with respect to premiums or claims are included in Insurance balances payable or Insurance balances receivable on the Consolidated Balance Sheet.

The Group constantly monitors the credit worthiness of the reinsurance companies to which it cedes and assesses any reinsurance assets for impairment, with any impairment loss recognised as an expense on the Consolidated Statement of Operations in the period in which any impairment is determined.

2.9.1(d) Insurance contract liabilities

Insurance contract liabilities shown on the Consolidated Balance Sheet include (i) Life and annuity policy reserves and (ii) Provision for unpaid and unreported claims.

(i) Life and annuity policy reserves

Life and annuity policy reserves are determined by the Group's actuaries and represent the amounts which, together with future premiums and investment income, are required to discharge the obligations under life and annuity contracts and to pay expenses related to the administration of those contracts. These reserves are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries (CIA). The CIA requires the use of the Canadian Asset Liability Method (CALM) for the valuation of actuarial liabilities for all lines of business. The policy actuarial liability reserves under CALM are calculated by projecting asset and liability cash flows under a variety of interest rate scenarios using best-estimate assumptions, together with margins for adverse deviations with respect to other contingencies pertinent to the valuation. The policy actuarial liability reserves make provision for the expected experience scenario and for adverse deviations in experience.

(ii) Provision for unpaid and unreported claims

Provision for unpaid and unreported claims represents the best estimate of the ultimate costs of claims in the course of settlement and claims incurred but not yet reported. The provision is continually reviewed and updated by management and the Group's actuaries. Any adjustments resulting from the review process, as well as differences between estimates and ultimate payments, are reflected on the Consolidated Statement of Operations in the year in which they are determined.

Provision for unpaid and unreported claims are not discounted, except for the provision on the health insurance contracts issued under the Insured employee benefits operating segment.

2.9.2 Investment contracts

Contracts issued that do not transfer significant insurance risk, but do transfer financial risk from the policyholder, are financial liabilities and are accounted for as investment contracts. Service components of investment contracts are treated as service contracts. Fees earned from the service components of investment contracts are included on the Consolidated Statement of Operations under Commissions, management fees and other.

Liabilities for investment contracts are measured at FVTPL or amortised cost (Note 2.6.2).

The following contracts are the investment contract liabilities of the Group:

- (i) Deposit administration pension plans are plans where the Group's liability is linked to contributions received, plus a predetermined and guaranteed return. The liability related to these plans is carried at amortised cost.
- (ii) Funding group policies are refund accounting agreements which provide for the retroactive adjustment of premiums based upon the claims experience of the policyholder. Under these agreements, any surplus arising is set off against future deficits or returned to the policyholder. Any deficit that may arise is set off against future surpluses or may be recovered in full, or in part, by lump sum payments from policyholders. As these agreements do not transfer insurance risk, funds received under these agreements are accounted for as investment contracts. Assets and liabilities arising from these type of policies are measured at amortised cost.
- (iii) Deposit accounted annuity policies relate to policies which do not transfer significant insurance risk but transfer financial risk to the policyholders. These are measured at FVTPL.

2.10 PROPERTY AND EQUIPMENT

Owner-occupied properties and all other assets classified as Property and equipment are stated at cost less accumulated depreciation and impairment. Subsequent costs are included in the assets' carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The costs of the day-to-day servicing of Property and equipment are recognised as incurred in Operating expenses on the Consolidated Statement of Operations.

Depreciation is calculated so as to write the assets off over their estimated useful lives at the following rates per annum:

Buildings	2.5%
Computer equipment	20% – 33%
Furniture, equipment and leasehold improvements	10% – 15%

The assets' residual values, useful lives and method of depreciation are reviewed regularly, at a minimum at the end of each fiscal year, and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered to be impaired and it is written down immediately to its recoverable amount. In the event of an improvement in the estimated recoverable amount, the related impairment may be reversed. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount, and are recognised in Commissions, management fees and other on the Consolidated Statement of Operations.

2.11 INTANGIBLE ASSETS

Intangible assets represent the estimated fair value of the customer lists acquired. These are finite life intangible assets and are measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful lives, which range between 10 to 16 years.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised on the Consolidated Statement of Operations as incurred. Management reviews annually the remaining portion of Intangible assets based upon estimates of future earnings and recognises any permanent impairment in Amortisation and depreciation on the Consolidated Statement of Operations in the year in which it is identified.

2.12 SEGREGATED FUNDS

Segregated funds are lines of business in which the Group issues a contract where the benefit amount is directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Group and the segregated fund contract holder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance.

Segregated funds are carried at fair value except for mortgages and policy loans which are carried at amortised cost and unpaid balance. Fair values are determined using quoted market values or, where quoted market values are not available, estimated fair values as determined by the Group. Segregated fund assets may not be applied against liabilities that arise from any other business of the Group. The investment results of the segregated funds are reflected directly in Segregated fund liabilities except for Segregated funds with a guaranteed return where the excess or deficiency of the return on the assets over the guaranteed return is reflected in Investment income on the Consolidated Statement of Operations. For the Segregated funds where the benefit amount is directly linked to the fair value of the investments, the Group derives only fee income which is included within Commissions, management fees and other on the Consolidated Statement of Operations. Deposits to segregated funds are reported as increases in Segregated funds liabilities and are not reported as income on the Consolidated Statement of Operations.

2.13 EMPLOYEE BENEFITS

Post-employment benefits

The Group provides medical benefits to eligible retired employees and their spouses. The Group accrues the cost of these defined benefits over the periods in which the employees earn the benefits. The post-employment benefit liability is determined by actuarial valuation using the projected unit credit method and actuarial assumptions that represent estimates of future variables that will affect the ultimate cost of these liabilities. The discount rate used in the valuation is based on the yield on high quality corporate bonds at the end of the reporting period.

Actuarial gains and losses are immediately recognised in Operating expenses on the Consolidated Statement of Operations.

Pensions

The Group operates a defined contribution plan. On payment of contributions to the plan there is no further legal or constructive obligation to the Group. Contributions are recognised as employee benefits on the Consolidated Statement of Operations under Operating expenses in the period to which they relate.

Stock-based compensation

The Group has two stock-based compensation plans for eligible employees, namely the Stock Option Plan and the Restricted Stock Plan.

The Stock Option Plan is accounted for under the fair value method. The fair value of stock-based awards is determined using the Black-Scholes option pricing model and is amortised over the applicable vesting period as compensation expense on the Consolidated Statement of Operations under Operating expenses and on the Consolidated Statement of Changes in Equity under Contributed surplus.

The Restricted Stock Plan is accounted for under the fair value method. The fair value of each share granted under the Restricted Stock Plan is based upon the market price at the date of grant. The estimated fair value is recognised as an expense pro-rata over the vesting period, adjusted for the impact of any non-market vesting conditions.

At each reporting date, the Group reviews its estimate of the number of shares that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, on the Consolidated Statement of Operations, and a corresponding adjustment is made to Contributed surplus over the remaining vesting period. On exercise, the differences between the expense charged to the Consolidated Statement of Operations and the actual cost to the Group is transferred to Contributed surplus.

2.14 TAXATION

Current and deferred tax is recognised on the Consolidated Statement of Operations, except when it relates to items recognised in Other comprehensive income, in which case the current and deferred tax is also recognised in Other comprehensive income.

Current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported on the Consolidated Statement of Operations because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is generally recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilised. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current tax assets and liabilities are offset when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to settle its current tax assets and liabilities on a net basis.

2.15 SHARE CAPITAL

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognised as a deduction from equity, net of any tax effects.

Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes direct attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified and presented under Treasury Shares on the Consolidated Statement of Changes in Equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in Contributed surplus on the Consolidated Statement of Changes in Equity.

2.16 LEASES

The Group is a lessor and a lessee of assets, primarily in connection with office space leases. Transactions where substantially all risks and rewards incidental to ownership are transferred from the lessor to the lessee are accounted for as finance leases. All other leases are accounted for as operating leases. The Group's leases are all accounted for as operating leases.

The Group's assets held for leasing are included in Property and equipment and Investment properties. Rental income from operating leases is recorded as revenue on a straight-line basis over the term of the lease. This is shown under Investment income on the Consolidated Statement of Operations.

For leases where the Group is the lessee, payments are charged to Operating expenses on the Consolidated Statement of Operations on a straight-line basis over the period of the lease.

2.17 EARNINGS PER SHARE

Basic earnings per share is presented on the Consolidated Statement of Operations and is calculated by dividing net earnings by the time-weighted average number of shares in issue during the year.

For the purpose of calculating fully diluted earnings per share, the time-weighted average number of shares in issue has been adjusted to reflect the additional shares that would have resulted had all stock options outstanding been exercised and in issue throughout the year. When there is a loss, no potential common shares are included in the computation of fully diluted earnings per share.

2.18 SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group is organised into operating segments based on their products, services and location. These operating segments mainly operate in the financial services industry and reflect the management structure and internal financial reporting. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Revenue from the operating segments is derived primarily from insurance premium, fees and commission income, investment income and fair value gains and losses on investments.

The Group has four reportable segments as follows:

- (i) Insured employee benefits – including group health, life and long-term disability and employer's indemnity coverage;
- (ii) Life and pensions – including individual life insurance, annuities and group retirement income plans;
- (iii) Property and casualty – including fire and windstorm (home and commercial property), all risks, liability, marine and motor coverage in Bermuda, Gibraltar and Malta; and
- (iv) All other – representing the combined operations of the remaining components of the Group comprising two management companies, two property holding companies, a financial reinsurance company and an investment management services company.

2.19 NEW ACCOUNTING PRONOUNCEMENTS

There are a number of accounting and reporting changes issued under IFRS including those still under development by the IASB that will impact the Group for fiscal years beginning on or after April 1, 2012 and subsequently. These are summarised below:

IFRS 4, Insurance contracts (IFRS 4)

IFRS 4, issued in March 2004, specifies the financial reporting for insurance contracts by an insurer. The current standard is Phase I in the IASB's insurance contract project and does not specify the recognition or measurement of insurance contracts. This will be addressed in Phase II of the IASB's and the U.S. Financial Accounting Standards Board's (FASB) joint project.

In 2010 the IASB issued its Insurance Contracts (Phase II) Exposure Draft and the FASB issued its Insurance Contract Discussion paper. The insurance contract project is considered a "joint project" whereby the IASB and FASB (the Boards) discuss common research papers. A due process step for joint projects also involves assessing differences recognised by the two Boards and determining if they can be resolved. Since 2010, the Boards have reconsidered significant issues based on feedback received on the IASB Exposure Draft and FASB Discussion paper. In 2012 the IASB expects to issue a "Review Draft" or a revised Exposure Draft. The FASB expects to issue an Exposure Draft. The final standards are not expected to be effective until at least 2015.

The draft proposals include a number of significant changes in the measurement and disclosure of insurance contracts. The Group will continue to monitor the progress of the project in order to assess the potential impact the new standard will have on its results and the presentation and disclosure thereof.

Amendment to IAS 12, Income Taxes (IAS 12)

An amendment to IAS 12 was issued in December 2010 that provides a practical approach to the measurement of deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under IAS 40, Investment Property. Where entities measure deferred tax liabilities and deferred tax assets using a tax rate and tax base that are consistent with the expected manner of recovery or settlement, the amendment provides a rebuttable presumption for investment property measured using the fair value model that its carrying amount will be recovered through sale. This amendment is effective for fiscal years beginning on or after January 1, 2012. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements of the Group.

IFRS 10, Consolidated Financial Statements (IFRS 10), including:

Amendments to IAS 27, Separate Financial Statements (IAS 27)

IFRS 12, Disclosure of Interests in Other Entities (IFRS 12)

Amendments to IAS 28, Investments in Associates (IAS 28)

IFRS 10, amendments to IAS 27, IFRS 12 and amendments to IAS 28 were all issued in May 2011 to improve consolidation and joint venture accounting. Each standard has an effective date for fiscal years beginning on or after January 1, 2013.

IFRS 10 replaces the consolidation guidance in IAS 27 and SIC-12, Consolidation – Special Purpose Entities, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns. The adoption of IFRS 10 is not expected to have a significant impact on the consolidated financial statements of the Group.

IFRS 12 requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to present information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvement with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. The adoption of IFRS 12 will result in additional financial statement disclosure but is not expected to have a significant impact on the consolidated financial statements of the Group.

IAS 28 is amended for conforming changes based on the issuance of IFRS 10 and IFRS 12 and the adoption of these amendments is not expected to have a significant impact on the consolidated financial statements of the Group.

IFRS 13, Fair Value Measurement (IFRS 13)

IFRS 13 was issued in May 2011 and replaces existing IFRS guidance on fair value measurement with a single standard.

IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The standard is effective for fiscal years beginning on or after January 1, 2013. The adoption of IFRS 13 will result in additional financial statement disclosure but is not expected to have a significant impact on the consolidated financial statements of the Group.

Amendments to IAS 1, Presentation of Financial Statements (IAS 1)

An amendment to IAS 1 was issued in June 2011 requiring changes to the presentation of items within Other comprehensive income. Under the amendments, presentation of items within Other comprehensive income will be separately presented based on whether or not the item will be subsequently reclassified into the Consolidated Statement of Operations. The amendments are effective for fiscal years beginning on or after January 1, 2013. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements of the Group.

Amendments to IAS 19, Employee Benefits (IAS 19)

The amendments to IAS 19 were issued in June 2011. The amendments require full recognition of actuarial gains and losses in Other comprehensive income when they occur and no longer recognised on the Consolidated Statement of Operations. Past service costs will be recognised when a plan is amended with no deferral over the vesting period. The service cost and finance cost components will continue to be recognised on the Consolidated Statement of Operations. Finance costs will be calculated using interest rates based on high quality corporate bond yields. Furthermore, the amendments include enhanced disclosures about the characteristics of the benefits and the risks to which the entity is exposed through participation in those benefits.

The amendments to IAS 19 are effective for fiscal years beginning on or after January 1, 2013. For the year ended March 31, 2012, the consolidated actuarial gain recognised in Operating expenses on the Consolidated Statement of Operations is \$261,000. Upon adoption, this will be reflected in Accumulated other comprehensive income, a component of equity. The actual impact to the Group will be based on actuarial estimates and market conditions that exist at the date of transition.

Amendments to IFRS 7, Financial Instruments: Disclosure (IFRS 7)

Amendments to IAS 32, Financial Instruments: Presentation (IAS 32)

The amendments to IFRS 7 issued in December 2011 introduce new disclosure requirements for financial instruments relating to their rights of offset and related arrangements under an enforceable master netting agreement or similar arrangements. The amendments to IFRS 7 are effective for fiscal years beginning on or after January 1, 2013. The Group is assessing the impact of these new disclosure requirements on its consolidated financial statements.

The amendments to IAS 32, issued in December 2011, clarify the basis for offsetting financial instruments presented on the Consolidated Balance Sheet. The amendments to IAS 32 are effective for fiscal years beginning on or after January 1, 2014. The Group is currently assessing the impact of these amendments on its consolidated financial statements.

IFRS 9, Financial Instruments (IFRS 9)

IFRS 9 was issued in November 2009 and amended in October 2010, and is the first phase of a three phase project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 currently provides that financial assets are measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged. However, revisions have been made to the accounting for changes in fair value of a financial liability attributable to changes in the credit risk of that liability. The other phases of this project which are currently under development include impairment and hedge accounting.

IFRS 9 is effective for fiscal years beginning on or after January 1, 2015. The Group is currently assessing the impact of IFRS 9 on its consolidated financial statements.

3 INVESTMENTS

3.1 Carrying values and estimated fair values of investments are as follows:

	MARCH 31, 2012		MARCH 31, 2011		APRIL 1, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments at FVTPL						
Bonds	79,974	79,974	165,227	165,227	157,790	157,790
Equities	45,597	45,597	64,769	64,769	79,691	79,691
	125,571	125,571	229,996	229,996	237,481	237,481
Held-to-maturity						
Bonds	6,046	6,006	6,276	5,910	6,201	5,451
	6,046	6,006	6,276	5,910	6,201	5,451
Available-for-sale						
Equities	4,177	4,177	4,347	4,347	55,198	55,198
	4,177	4,177	4,347	4,347	55,198	55,198
Loans and receivables						
Mortgages and loans	46,650	47,533	46,320	44,349	61,209	60,145
Receivables from reverse repurchase transactions	2,700	2,700	17,300	17,300	-	-
Policy loans	61	61	66	66	60	60
	49,411	50,294	63,686	61,715	61,269	60,205
Derivatives						
Money market futures	-	-	30	30	-	-
Interest rate swaps	(45)	(45)	73	73	-	-
Foreign currency forward contracts	(92)	(92)	(14)	(14)	-	-
	(137)	(137)	89	89	-	-
TOTAL INVESTMENTS	185,068⁽¹⁾	185,911	304,394	302,057	360,149	358,335

(1) The significant decrease in the total investments was due to the transfer of certain investments to Segregated funds as discussed in Note 27.

Fair values for bonds in active markets are determined using quoted market prices provided by third party independent pricing sources. Fair values for bonds when there is no active market are carried at amortised cost, net of any provision for losses.

Fair values for equities are generally determined by quoted market bid prices from the exchange where it is principally traded. Fair values for equities for which there is no active market are carried at cost, net of any provision for losses. Fair values for investments in hedge funds and private equity funds are derived using net asset values from the investment manager or general partner of the respective entity.

Fair values for Mortgages and loans are determined by discounting expected future cash flows using current market rates. Receivables from reverse repurchase transactions are carried at their initial acquisition cost with the difference between the acquisition cost and the selling price being recognised as Investment income on the Consolidated Statement of Operations. Reverse repurchase transactions are short-term holdings and are secured with collateral. The carrying value approximates fair value.

Derivative financial instruments derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity, credit and market risk. Estimated fair values are based on exchange or broker-dealer quotations, where available, or discounted cash flow models, which incorporate the pricing of the underlying instrument, yield curves and other factors.

3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE ON THE CONSOLIDATED BALANCE SHEET

The Group uses the following hierarchy for determining fair value of financial instruments by valuation techniques: Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The

investments classified as Level 1 include U.S. Treasury securities and exchange-traded equities. This includes equities amounting to \$21.1 million which are traded on the Bermuda Stock Exchange, while \$4.9 million are traded on the London Stock Exchange.

Level 2 – Fair value is based on quoted prices for similar assets or liabilities in active markets. The valuation is based on significant observable inputs or inputs that are derived principally from or corroborated by observable market data through correlation or other means. The investments classified as Level 2 include investments in hedge funds, mutual funds and all exchange-traded bonds except U.S. Treasury securities.

Level 3 – Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect the Group's assumptions about the market participants in pricing the investments. The investments classified as Level 3 include investments in private equity funds and unquoted equities.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

MARCH 31, 2012	Level 1	Level 2	Level 3	Total
Investments at FVTPL				
Bonds	14,920	65,054	-	79,974
Equities	26,091	18,166	1,340	45,597
	41,011	83,220	1,340	125,571
Available-for-sale – equities	-	-	4,177	4,177
Derivatives	-	(137)	-	(137)
TOTAL INVESTMENTS AT FAIR VALUE	41,011	83,083	5,517	129,611
MARCH 31, 2011	Level 1	Level 2	Level 3	Total
Investments at FVTPL				
Bonds	192	165,035	-	165,227
Equities	31,827	31,616	1,326	64,769
	32,019	196,651	1,326	229,996
Available-for-sale – equities	-	-	4,347	4,347
Derivatives	-	89	-	89
TOTAL INVESTMENTS AT FAIR VALUE	32,019	196,740	5,673	234,432
APRIL 1, 2010	Level 1	Level 2	Level 3	Total
Investments at FVTPL				
Bonds	2,228	154,462	1,100	157,790
Equities	41,161	32,263	6,267	79,691
	43,389	186,725	7,367	237,481
Available-for-sale – equities	-	-	55,198	55,198
Derivatives	-	-	-	-
TOTAL INVESTMENTS AT FAIR VALUE	43,389	186,725	62,565	292,679

The following table shows a reconciliation of the beginning and ending balances for financial assets which are categorised at Level 3.

FOR THE YEAR ENDED MARCH 31, 2012	INVESTMENTS			
	At FVTPL		Available- for-sale	Total
	Bonds	Equities	Equities	
Balance, beginning of year	-	1,326	4,347	5,673
Included in Investment income	-	-	36	36
Included in Other comprehensive income	-	-	(35)	(35)
Purchases	-	14	299	313
Sales	-	-	(470)	(470)
	-	1,340	4,177	5,517

FOR THE YEAR ENDED MARCH 31, 2011	INVESTMENTS			
	At FVTPL		Available- for-sale	Total
	Bonds	Equities	Equities	
Balance, beginning of year	1,100	6,267	55,198	62,565
Included in Investment income	-	(439)	762	323
Included in Other comprehensive income	-	-	(308)	(308)
Purchases	-	1,100	300	1,400
Sales	(1,100)	(5,602)	(1,605)	(8,307)
Transfer to Investment in associates	-	-	(50,000)	(50,000)
	-	1,326	4,347	5,673

3.3 RECEIVABLES FROM REVERSE REPURCHASE TRANSACTIONS

The Group's investment in reverse repurchase agreement contracts are commitments to resell bonds purchased at a higher price at a specific future date. Reverse repurchase transactions expose the Group to credit risk from the potential inability of counterparties to perform under the terms of the contract. The risk is mitigated by credit risk evaluation of the counterparty and holding the securities purchased as collateral. Under these agreements, the Group received \$2.7 million on April 2, 2012. These receivables were collateralised by two agency notes with a total fair value of \$2.7 million as at March 31, 2012 (2011 – \$17.3 million). Market and liquidity risks and how these risks are mitigated are disclosed in Note 14.3.

3.4 DERIVATIVE FINANCIAL INSTRUMENTS

The Group's investment guidelines permit the investment managers to utilise derivative financial instruments such as foreign currency futures, interest rate swaps and foreign currency forwards for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. These positions are monitored regularly. The Group principally has exposure to derivatives related to foreign currency risk, interest rate risk and credit risk.

The net losses arising from the Group's derivative financial instruments recognised as Change in fair value of investments on the Consolidated Statement of Operations are as follows:

FOR THE YEARS ENDED MARCH 31	2012	2011
Derivative financial instruments		
Money market futures	(30)	(60)
Interest rate swaps	(118)	-
Foreign currency forward receivable	(78)	(9)
TOTAL NET LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS	(226)	(69)

3.4.1 Money market futures

Futures provide the Group with participation in market movements, determined by the underlying instrument on which the futures contract is based, without holding the instrument itself or the individual securities. This approach allows the Group more efficient and less costly access to the exposure than would be available by the exclusive use of individual fixed income and money market securities. Futures contracts may also be used as substitutes for ownership of the physical securities. All futures contracts are held on a non-leveraged basis. An initial margin is provided, which is a deposit of cash and/or securities in an amount equal to a prescribed percentage of the contract value. The fair value of futures contracts is estimated daily and the margin is adjusted accordingly with unrealised gains and/or losses settled daily in cash and/or securities. A realised gain or loss is recognised when the contract is closed. Futures contracts expose the Group to credit, market and liquidity risks. The Group is exposed to credit risks to the extent that the counterparties are not able to perform under the terms of the contract. Market risk arises when adverse changes occur in the estimated fair values of the underlying securities.

Liquidity risk represents the possibility that the Group may not be able rapidly to adjust the size of its forward positions at a reasonable price in times of high volatility and financial stress. Exchange-traded futures are, however, subject to a number of safeguards to ensure that obligations are met, including the use of clearing houses, the posting of margins and the daily settlement of unrealised gains and losses and counterparty credit risk evaluation. Credit, market and liquidity risks and how these risks are mitigated are disclosed in Note 14.3.

At March 31, 2012, the notional amount of outstanding money market futures amounted to \$2.5 million (2011 – \$270 million).

3.4.2 Interest Rate Swaps

Swaps are used to manage interest rate exposure, portfolio duration or capitalise on anticipated changes in interest rate volatility without investing directly in the underlying securities. Swaps are recorded at estimated fair values at the end of each period with unrealised gains and losses recorded in Change in fair value of investments on the Consolidated Statement of Operations.

Interest rate swap agreements entail the exchange of commitments to pay or receive interest, such as an exchange of floating rate payments for fixed rate payments, with respect to a notional amount of principal. These agreements involve elements of credit and market risk. Such risks include the possibility that there may not be a liquid market, that the counterparty may default on its obligation to perform or that there may be unfavourable movements in interest rates. Credit risk is mitigated by making collateral calls to mitigate exposure and counterparty credit risk evaluation. Credit, market and liquidity risks and how these risks are mitigated are disclosed in Note 14.3.

At March 31, 2012, the Group has open interest rate swaps with long positions of \$nil and short positions of \$nil (2011 – long positions of \$15 million and short positions of \$6 million).

3.4.3 Foreign Currency Forwards

A foreign currency forward contract is a commitment to purchase or sell a foreign currency at a future date at a defined rate. The Group may utilise foreign currency forward contracts to manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments, or to gain exposure to a certain currency or market rate. Forward contracts expose the Group to credit, market and liquidity risks. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Group is exposed to market risk to the extent that adverse changes occur in the exchange rate of the underlying foreign currency. Liquidity risk represents the possibility that the Group may not be able rapidly to adjust the size of its forward positions at a reasonable price in times of high volatility and financial stress. Credit risk is mitigated by making collateral calls to mitigate exposure and counterparty credit risk evaluation. Credit, market and liquidity risks and how these risks are mitigated are disclosed in Note 14.3.

The Group had the following open foreign currency forward contracts:

	MARCH 31, 2012	
	Notional receivable	Notional payable
Australian dollar	1,748	-
Canadian dollar	1,102	-
Eurodollar	1,134	-
Chinese Yuan	9,625	9,625
Indian Rupee	7,720	7,720
Japanese Yen	14,001	-
Malaysian Ringgit	1,001	1,001

	MARCH 31, 2011	
	Notional receivable	Notional payable
Australian dollar	-	329
Canadian dollar	2,074	982
Eurodollar	828	-
Singapore dollar	-	417

At March 31, 2012, the U.S. dollar equivalent of outstanding foreign currency forward contracts with long positions and short positions amounted to \$4.8 million and \$2.0 million respectively (2011 – \$3.3 million and \$1.7 million).

3.5 ACCRUED INTEREST AND SHORT-TERM CASH BALANCES HELD BY INVESTMENT MANAGERS

Included within Investments at FVTPL are the following short-term accrued interest and cash balances held by investment managers in managed portfolios.

	MARCH 31 2012	MARCH 31 2011	APRIL 1 2010
Accrued interest	913	1,656	2,064
Short-term cash balances	917	2,927	756

3.6 INVESTMENT INCOME

FOR THE YEARS ENDED MARCH 31	2012	2011
Interest income		
Bonds – at FVTPL	5,479	5,006
Bonds – held-to-maturity	364	402
Mortgages and loans	2,498	3,416
Cash and other	644	203
	8,985	9,027
Dividend income		
Equities – at FVTPL	1,582	3,331
Equities – available-for-sale	360	895
	1,942	4,226
Net realised gains/(losses) on sale of investments		
Bonds – at FVTPL	1,416	7,570
Equities – at FVTPL	(2,857)	3,424
Equities – available-for-sale	35	780
	(1,406)	11,774
Amortisation of premium on bonds	(1,141)	(611)
Rental income and other	906	2,111
Impairment charges		
Bonds – held-to-maturity	(310)	-
Equities – available-for-sale	-	(15,545)
Mortgages and loans	(401)	(1,957)
Deduct: Investment income relating to Deposit administration pension plans	(4,713)	(5,924)
	(5,659)	(21,926)
TOTAL INVESTMENT INCOME	3,862	3,101

3.7 CHANGE IN FAIR VALUE OF INVESTMENTS

FOR THE YEARS ENDED MARCH 31	Note	2012	2011
Arising from:			
Bonds		4,430	(3,828)
Equities		(407)	(8,943)
Derivative financial instruments		(226)	(69)
Investment property	6	8	-
TOTAL CHANGE IN FAIR VALUE OF INVESTMENTS		3,805	(12,840)

4 INVESTMENT IN ASSOCIATES

The Group holds equity interests in certain companies incorporated in Bermuda and has significant influence over the operational and financial policies of these companies.

Investment in associates is comprised of:

	MARCH 31 2012	MARCH 31 2011	APRIL 1 2010
Investment in other associates	11,404	13,202	13,633
Investment in Northstar Group Holdings Limited	-	33,247	-
TOTAL INVESTMENT IN ASSOCIATES	11,404	46,449	13,633

Proportionate share of (loss)/earnings of associates for the year is as follows:

For the years ended March 31	2012	2011
Investment in other associates	(1,580)	1,312
Investment in Northstar Group Holdings Limited	(10,617)	-
TOTAL SHARE OF (LOSS)/EARNINGS OF ASSOCIATES	(12,197)	1,312

Summarised financial information of the Group's associates is as follows:

	MARCH 31 2012	MARCH 31 2011	APRIL 1 2010
Assets	66,888	774,363	289,936
Liabilities	27,121	635,501	230,606
Net assets	39,767	138,862	59,330
Revenue	45,938	132,963	62,412
Net income (loss)	(4,035)	67,158	7,654

4.1 INVESTMENT IN OTHER ASSOCIATES

\$8.1 million (2011 – \$9.5 million; 2010 – \$10.3 million) of the Group's Investment in other associates relates to an investment in an associate whose shares are publicly traded. The fair value of the Group's interest based on the market price of the associate's shares is \$4.1 million (2011 – \$6.8 million; 2010 – \$7.0 million). As the fair value is lower than the equity of the Investment in other associate, an impairment review and evaluation on the going concern basis was performed. The Group believes that the recoverable amount of the investment using the value-in-use method is higher than the published fair value because the market price continues to reflect ongoing uncertainty and volatility to the local economy as opposed to the fundamental long-term value of this investment. The recoverable amount under the value-in-use method is also higher than the equity of the Investment in associate.

During the year, the associate discontinued certain operations of which the Group's share was a net loss of \$410,000.

4.2 INVESTMENT IN NORTHSTAR GROUP HOLDINGS, LTD.

As at March 31, 2010, the investment in Northstar Group Holdings, Ltd. (NGH) was classified as Equities – available-for-sale and was carried at cost of \$50 million since fair value could not be measured reliably as a result of the absence of an active market for the equity. During fiscal 2011, the Group obtained significant influence over NGH through an increase in voting rights as part of an agreement whereby, inter alia, the \$16.8 million of promissory notes previously due to this affiliate were cancelled; effectively reducing the cost of this investment to \$33.2 million. This value, in the opinion of management, then approximated its fair value as at March 31, 2011 when the investment was re-classified under Investment in associates on the Consolidated Balance Sheet.

NGH is a holding company and its wholly owned subsidiary, Northstar Reinsurance Ireland Limited (NRIL), transacted life reinsurance business. No new treaties had been written since 2006 and the two remaining treaties were closed to new business several years ago. During 2011, NGH and NRIL considered several options with respect to the remaining treaties including the novation or recapture of one or both, or retaining the treaties and running off the business.

Under the terms of NGH's shareholder agreement each shareholder is required to cover a shortfall arising from any other shareholder's inability to meet their obligation. Given that certain of the principal shareholders were not immediately able to meet their obligations due to liquidity and certain other governance-related concerns, the uncertainties in investment markets and the operational volatility of the business contained in the treaties, the principal shareholders decided that running off the business was no longer a viable option. Accordingly, in late 2011 negotiations were concluded with a third party to novate one treaty and recapture the second. NRIL then ceased to do business and has now been placed into Members' voluntary liquidation.

There are various financial commitments due to NGH from other shareholders which are collateralised by various assets. These assets include holdings in hedge funds and equities, the valuation of which is inherently uncertain and, in the case of one major shareholder, recent events have suggested the charged assets may realise values that will not be sufficient to satisfy their obligations. The ultimate distribution of capital to the Group is dependent on the collection of the amounts due. Accordingly, management has determined that the value of the investment in NGH should be treated as impaired to the extent of the likely inability of this one shareholder to meet its aforementioned obligations.

The Group's proportionate share of this obligation is \$10.6 million and this write down has been reflected in the Share of (loss)/earnings of associates on the Consolidated Statement of Operations for the year ended March 31, 2012. The Group intends to pursue the recovery of this write down to the fullest extent under law.

Prior to March 31, 2012, and following the receipt of interim distributions from contributed surplus to NGH shareholders, Argus received \$20.6 million in cash. The residual balance of the Investment in NGH is now represented by a fully collateralised and performing three year loan of \$2 million to another NGH shareholder and is included under Mortgages and loans on the Consolidated Balance Sheet.

5 INSURANCE BALANCES RECEIVABLE

Insurance balances receivable is comprised of:

MARCH 31, 2012	Insured Employee Benefits	Life and Pensions	Property and Casualty	Total
Due from policyholders, agents and brokers	6,893	1,540	8,165	16,598
Due from reinsurers	1,975	2,950	641	5,566
TOTAL INSURANCE BALANCES RECEIVABLE	8,868	4,490	8,806	22,164
MARCH 31, 2011	Insured Employee Benefits	Life and Pensions	Property and Casualty	Total
Due from policyholders, agents and brokers	5,920	952	7,903	14,775
Due from reinsurers	1,309	1,828	460	3,597
TOTAL INSURANCE BALANCES RECEIVABLE	7,229	2,780	8,363	18,372
APRIL 1, 2010	Insured Employee Benefits	Life and Pensions	Property and Casualty	Total
Due from policyholders, agents and brokers	4,233	361	4,595	9,189
Due from reinsurers	1,274	-	-	1,274
TOTAL INSURANCE BALANCES RECEIVABLE	5,507	361	4,595	10,463

6 INVESTMENT PROPERTIES

	Fair value
Balance, April 1, 2010	6,949
Additions	-
Fair value gains and losses	-
Foreign exchange rate movements	57
BALANCE, MARCH 31, 2011	7,006
Additions	-
Fair value gains and losses	8
Foreign exchange rate movements	(4)
BALANCE, MARCH 31, 2012	7,010

The Group's investment properties consist of a residential apartment and condominium fractional units which are held for rental income. Investment properties are stated at fair value.

The valuations of the investment properties were performed as at March 31, 2012, June 16, 2011, and March 31, 2010 by industry specialists who have recent experience in the location and category of the investment property being valued.

The Group enters into operating leases for all of its investment properties. The rental income arising during the year amounted to \$234,000 (2011 – \$176,000), which is included in Investment income on the Consolidated Statement of Operations. Direct operating expenses included within Investment income arising in respect of such properties during the year were \$220,000 (2011 – \$199,000).

There are no restrictions on the realisability of investment properties or the remittance of income and proceeds of disposal. The Group has no contractual obligations to purchase, construct or develop the investment properties other than normal service charge arrangements.

7 OTHER ASSETS

	Note	MARCH 31 2012	MARCH 31 2011	APRIL 1 2010
Other financial assets				
Fees receivable		1,634	1,690	859
Receivable from Funding group policies		1,851	1,347	779
Receivable from NGH		-	1,184	-
Notes and other receivables		1,258	494	2,981
TOTAL OTHER FINANCIAL ASSETS		4,743	4,715	4,619
Income tax receivable		140	53	-
Deferred tax asset	26	-	1	1
Prepaid expenses		2,200	1,624	1,546
TOTAL OTHER ASSETS		7,083	6,393	6,166

Carrying amounts approximate fair value due to the short-term nature of these assets.

8 DEFERRED POLICY ACQUISITION COSTS

The reconciliation between opening and closing deferred policy acquisition costs incurred is shown below:

FOR THE YEARS ENDED MARCH 31	2012	2011
Balance, beginning of year	2,135	1,746
Deferral during the year	3,555	3,321
Expense for the year	(3,390)	(3,019)
Foreign exchange rate movements	(5)	87
BALANCE, END OF YEAR	2,295	2,135

9 PROPERTY AND EQUIPMENT

	Land and buildings	Computer equipment	Furniture and other equipment	Total
Gross carrying amount				
Balance, April 1, 2010	75,068	24,022	6,739	105,829
Additions	1,831	1,782	147	3,760
Acquisition of a subsidiary	-	36	4	40
Foreign exchange rate movements	30	29	24	83
BALANCE, MARCH 31, 2011	76,929	25,869	6,914	109,712
Additions	1,639	1,581	34	3,254
Foreign exchange rate movements	(1)	(2)	(2)	(5)
BALANCE, MARCH 31, 2012	78,567	27,448	6,946	112,961
Accumulated depreciation				
Balance, April 1, 2010	6,970	16,020	5,183	28,173
Depreciation charge for the year	2,628	1,869	222	4,719
Foreign exchange rate movements	28	24	14	66
BALANCE, MARCH 31, 2011	9,626	17,913	5,419	32,958
Depreciation charge for the year	2,475	1,674	210	4,359
Foreign exchange rate movements	(1)	(2)	(1)	(4)
BALANCE, MARCH 31, 2012	12,100	19,585	5,628	37,313
Net carrying amount, end of year				
As at April 1, 2010	68,098	8,002	1,556	77,656
As at March 31, 2011	67,303	7,956	1,495	76,754
AS AT MARCH 31, 2012	66,467	7,863	1,318	75,648

10 ACQUISITION

Effective April 1, 2010, the Group acquired the entire share capital of Fogg Insurance Agencies Limited (Fogg) which became a wholly owned subsidiary of Argus Insurance Company (Europe) Limited. Fogg sells property and casualty business in Malta. The acquisition provided the Group with business opportunities which create a solid base for further diversification outside of Bermuda. The purchase consideration was subject to certain adjustments dependent on the persistency of the book of business. The maximum further total consideration payable was not to exceed €300,000. The Group initially recognised the maximum amount which was shown under Accounts payable and accrued liabilities in the March 31, 2011 Consolidated Balance Sheet.

As of March 31, 2012, the Group derecognised the €300,000 contingent liability since the calculated retention ratio did not meet the criteria for additional payments.

	Fair value recognised on acquisition
Assets	
Cash	483
Investments	15
Trade and other receivables	1,391
Intangible assets	2,744
Other assets ⁽¹⁾	41
	<u>4,674</u>
Liabilities	
Accounts payable and other liabilities	(1,572)
NET ASSETS ACQUIRED	<u>3,102</u>
TOTAL PURCHASE CONSIDERATION LESS CASH ACQUIRED	<u>2,619</u>

(1) Includes Property and equipment of \$40,000 and other miscellaneous assets of \$1,000.

There were no acquisitions during the year ended March 31, 2012.

11 INTANGIBLE ASSETS

Intangible assets are comprised of:

	Note	Customer's list
Gross carrying amount		
Balance, April 1, 2010		21,430
Acquisition of subsidiary	10	2,744
Foreign exchange adjustments		283
BALANCE, MARCH 31, 2011		<u>24,457</u>
Additions ⁽¹⁾		251
Foreign exchange adjustments		(57)
BALANCE, MARCH 31, 2012		<u>24,651</u>
Accumulated amortisation and impairment losses		
Balance, April 1, 2010		15,307
Amortisation charge for the year		1,138
Foreign exchange adjustments		44
BALANCE, MARCH 31, 2011		<u>16,489</u>
Amortisation charge for the year		991
Subsequent adjustment to acquisition price ⁽²⁾		401
Foreign exchange adjustments		(17)
BALANCE, MARCH 31, 2012		<u>17,864</u>
Net carrying amount, end of year		
As at April 1, 2010		6,123
As at March 31, 2011		7,968
AS AT MARCH 31, 2012		<u>6,787</u>

(1) During the year, a subsidiary within the Life and annuity operating segment purchased rights to a customer's list.

(2) Refer to Note 10.

12 INSURANCE CONTRACT LIABILITIES

The Group's Insurance contract liabilities and Reinsurers' share of claims provisions and unearned premiums are comprised of:

MARCH 31, 2012	Note	Gross	Ceded	Net
Life and annuity policy reserves	12.1	142,325	(7,181)	135,144
Provision for unpaid and unreported claims	12.2	29,048	(4,392)	24,656
		171,373	(11,573)	159,800
Unearned premiums	12.3	19,559	(10,860)	8,699
TOTAL INSURANCE CONTRACT LIABILITIES		190,932	(22,433)	168,499

MARCH 31, 2011	Note	Gross	Ceded	Net
Life and annuity policy reserves	12.1	137,909	(8,646)	129,263
Provision for unpaid and unreported claims	12.2	27,218	(5,112)	22,106
		165,127	(13,758)	151,369
Unearned premiums	12.3	19,436	(10,463)	8,973
TOTAL INSURANCE CONTRACT LIABILITIES		184,563	(24,221)	160,342

APRIL 1, 2010	Note	Gross	Ceded	Net
Life and annuity policy reserves	12.1	140,284	(14,508)	125,776
Provision for unpaid and unreported claims	12.2	26,022	(3,550)	22,472
		166,306	(18,058)	148,248
Unearned premiums	12.3	18,160	(9,811)	8,349
TOTAL INSURANCE CONTRACT LIABILITIES		184,466	(27,869)	156,597

12.1 LIFE AND ANNUITY POLICY RESERVES

The table below sets out the Group's Life and annuity policy reserves shown by type of product and by reportable segment:

MARCH 31, 2012	Insured employee benefits	Life and pensions	Total
Annuities	-	117,679	117,679
Long-term disability	5,719	-	5,719
Life	-	18,927	18,927
Life and annuity policy reserves	5,719	136,606	142,325
Reinsurers' share of claims provisions	(4,115)	(3,066)	(7,181)
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	1,604	133,540	135,144

MARCH 31, 2011	Insured employee benefits	Life and pensions	Total
Annuities	-	112,132	112,132
Long-term disability	5,439	-	5,439
Life	-	20,338	20,338
Life and annuity policy reserves	5,439	132,470	137,909
Reinsurers' share of claims provisions	(4,079)	(4,567)	(8,646)
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	1,360	127,903	129,263

APRIL 1, 2010	Insured employee benefits	Life and pensions	Total
Annuities	-	107,718	107,718
Long-term disability	5,026	-	5,026
Life	-	27,540	27,540
Life and annuity policy reserves	5,026	135,258	140,284
Reinsurers' share of claims provisions	(3,796)	(10,712)	(14,508)
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	1,230	124,546	125,776

The majority of the Life and annuity policy reserves relate to policies issued to individuals domiciled in Bermuda. The Reinsurer's share of claims provisions are not considered impaired as at year end.

The composition of the assets supporting the net liabilities is as follows:

MARCH 31, 2012	Cash	Bonds	Mortgage and loans	Equities (1)	Land and buildings	Total
Annuities	440	39,090	14,929	44,895	18,325	117,679
Long-term disability	-	-	1,604	-	-	1,604
Life	2,944	5,788	2,691	4,438	-	15,861
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	3,384	44,878	19,224	49,333	18,325	135,144

(1) Includes Investment in associates

MARCH 31, 2011	Cash	Bonds	Mortgage and loans	Equities (1)	Land and buildings	Total
Annuities	675	25,841	12,200	53,791	19,625	112,132
Long-term disability	-	-	1,360	-	-	1,360
Life	-	5,639	4,005	6,127	-	15,771
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	675	31,480	17,565	59,918	19,625	129,263

(1) Includes Investment in associates

APRIL 1, 2010	Cash	Bonds	Mortgage and loans	Equities (1)	Land and buildings	Total
Annuities	-	19,774	3,583	63,028	21,333	107,718
Long-term disability	-	-	1,230	-	-	1,230
Life	-	5,346	5,400	6,082	-	16,828
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	-	25,120	10,213	69,110	21,333	125,776

(1) Includes Investment in associates

The Group examines the assumptions used in determining the Life and annuity policy reserves on an ongoing basis to ensure they appropriately reflect emerging experience and changes in risk profile. Annually the Group conducts a comprehensive review of all actuarial methods and assumptions. Changes to actuarial methods and assumptions used in determining Insurance contract liabilities will result in a change to the projected value of policy cash flows and therefore, to the Life and annuity policy reserves. The net impact of changes in actuarial methods and assumptions was an increase in reserves backing policyholder liabilities of \$1.8 million (2011 - \$1.7 million). These amounts are net of the impact of the reinsurance assets on policyholder liabilities of \$7.2 million (2011 - \$8.6 million).

The changes in the net Life and annuity policy reserves for the year are as follows:

FOR THE YEARS ENDED MARCH 31	2012	2011
Balance, beginning of year	129,263	125,776
Changes due to:		
Issuance of new policies	9,713	10,784
Normal changes	(5,596)	(9,037)
Mortality/morbidity assumptions	(2,157)	-
Interest rate assumptions	2,780	1,660
Expense assumptions	1,141	80
BALANCE, END OF YEAR	135,144	129,263

12.1.1 Key Assumptions – Life and annuity policy reserves

The risks associated with insurance contracts and in particular with Life and annuity insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis.

To recognise the uncertainty involved in determining the best estimate assumptions a Provision for Adverse Deviation (PfAD) is established. The PfAD is determined by including a margin for conservatism for each key assumption to allow for possible deterioration in experience and to help ensure the policy reserves will be adequate to pay for future benefits. The PfAD assumptions tend to be in the conservative end of the ranges suggested by the CIA.

In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimise the Group's exposure to measurement uncertainty. The key assumptions and the risk management practices associated with these assumptions are discussed in the following table:

ASSUMPTION, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
<p>(a) Mortality and morbidity risk</p> <p>Mortality refers to the likelihood of death. The mortality assumption is based on industry standard life insurance and standard annuity past and emerging experience. The Group's life insurance and annuity business is not sufficient to use company specific mortality tables.</p> <p>A five percent decrease in the best estimate assumption for annuitant mortality would increase the policy reserves by \$1.98 million, 1.65 percent (2011 - \$1.94 million, 1.67 percent).</p> <p>Morbidity refers to the incidence of accident and sickness as well as the recovery from the incidence. The morbidity assumptions are based on the industry standard morbidity tables for the long-term disability business. The frequency of claims is low and the risk is substantially reinsured.</p>	<p>The Group maintains underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. To offset some of the mortality risk, the Group cedes a proportion of the mortality risk with reinsurers.</p> <p>Mortality and morbidity are monitored regularly.</p>
<p>(b) Investment returns and interest rate risk</p> <p>Assets are allocated to the different business segments. For each significant operating segment, CALM is used to project the cash flows from the supporting assets and the cash flows from the liabilities. The projected</p>	<p>The Group's policy of closely matching the cash flows of assets with those of the corresponding liabilities is designed to mitigate the Group's exposure to future</p>

ASSUMPTION, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
<p>asset cash flows are combined with the projected cash flows from future asset sales and purchases to determine the expected investment returns for all future years.</p> <p>The CIA prescribes several representative reinvestment scenarios for use in CALM to determine the sensitivity of the Group's business to possible reinvestment risk. These represent a wide variety of interest rate scenarios. To provide a representative example a one percent increase in the best estimate investment return assumption decreases the total Life and annuity policy reserves by \$11.1 million (2011 – \$10.6 million). A one percent decrease in the best estimate assumption increases the total Life and annuity policy reserves by \$13.0 million (2011 – \$12.5 million).</p>	<p>changes in interest rates. The interest rate risk positions in business segments are monitored on an ongoing basis. Under CALM, the re-investment rate is developed using interest rate scenario testing and reflects the interest rate risk positions.</p> <p>Bonds, equities, real estate and other non-fixed income assets are used to support long-dated obligations in the Group's annuity and pensions businesses, and for long-dated insurance obligations on contracts where the investment return risk is borne by the Group.</p>
<p>(c) Credit risk</p> <p>Credit risk is provided for by reducing investment yields assumed in the calculation of the policy reserves. Past Group and industry experience over the long term, in addition to ongoing reviews of the current portfolio, are used to project credit losses. In addition to the allowances for losses on invested assets due to interest rate risk, the policy reserves include a provision of \$1.0 million (2011 – \$1.2 million) to provide for future asset defaults and loss of asset value on current assets and future purchases.</p>	<p>For certain policies, the premiums and benefits reflect the Group's assumed level of future credit losses at contract inception or most recent contract adjustment date. The Group holds explicit provisions in actuarial liabilities for credit risk including PfAD.</p>
<p>(d) Expenses</p> <p>Operating expense assumptions reflect the projected costs of servicing and maintaining the in-force policies. The assumptions are derived from internal reviews of operating costs and include an allowance for inflation. A ten percent increase in the best estimate assumption for unit expenses would increase the policy reserves by approximately \$0.7 million (2011 – \$0.6 million).</p>	<p>The Group prices its products to cover the expected costs of servicing and maintaining them. In addition, the Group monitors expenses quarterly, including comparisons of actual expenses to expense allowances used in pricing and valuation.</p>

12.2 PROVISION FOR UNPAID AND UNREPORTED CLAIMS

The table below sets out the Provision for unpaid and unreported claims shown by type of product and by reportable segment. The majority of these insurance contracts are of a short-term nature.

MARCH 31, 2012	Insured employee benefits	Property and casualty	Total
Healthcare	15,083	-	15,083
Fire	-	713	713
Motor	-	10,150	10,150
Accident and liability	-	2,653	2,653
Marine	-	449	449
Provision for unpaid and unreported claims	15,083	13,965	29,048
Reinsurers' share of claims provisions	(20)	(4,372)	(4,392)
PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE	15,063	9,593	24,656
MARCH 31, 2011	Insured employee benefits	Property and casualty	Total
Healthcare	13,556	-	13,556
Fire	-	2,364	2,364
Motor	-	9,214	9,214
Accident and liability	-	1,864	1,864
Marine	-	220	220
Provision for unpaid and unreported claims	13,556	13,662	27,218
Reinsurers' share of claims provisions	(20)	(5,092)	(5,112)
PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE	13,536	8,570	22,106
APRIL 1, 2010	Insured employee benefits	Property and casualty	Total
Healthcare	13,674	-	13,674
Fire	-	1,778	1,778
Motor	-	8,022	8,022
Accident and liability	-	2,460	2,460
Marine	-	88	88
Provision for unpaid and unreported claims	13,674	12,348	26,022
Reinsurers' share of claims provisions	(2)	(3,548)	(3,550)
PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE	13,672	8,800	22,472

The reconciliation of the Provision for unpaid and unreported claims is as follows:

FOR THE YEARS ENDED MARCH 31	2012			2011		
	Provisions for unpaid and unreported claims	Reinsurers' share of claims provisions	Net	Provisions for unpaid and unreported claims	Reinsurers' share of claims provisions	Net
Balance, beginning of year	27,218	(5,112)	22,106	26,022	(3,550)	22,472
Claims and adjustment expenses incurred						
Current year	94,069	(5,737)	88,332	88,288	(5,306)	82,982
Prior years	(1,122)	(63)	(1,185)	943	(1,694)	(751)
Foreign exchange adjustments	(26)	6	(20)	436	(95)	341
Total Claims and adjustment expenses incurred	92,921	(5,794)	87,127	89,667	(7,095)	82,572
Claims and adjustment expenses paid						
Current year	(74,095)	4,380	(69,715)	(71,306)	3,658	(67,648)
Prior years	(16,996)	2,134	(14,862)	(17,165)	1,875	(15,290)
Total Claims and adjustment expenses paid	(91,091)	6,514	(84,577)	(88,471)	5,533	(82,938)
BALANCE, END OF YEAR	29,048	(4,392)	24,656	27,218	(5,112)	22,106

12.2.1 Key Assumptions – Provision for unpaid and unreported claims

ASSUMPTION, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
<p>The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Uncertainty over the timing and amount of future claim payments necessitate the holding of significant reserves for liabilities that may only emerge a number of accounting periods later.</p> <p>The key assumptions underlying the application of the actuarial methods and the estimate of unpaid claim liabilities are the expected development of paid and reported losses and the derivation of initial expected losses. Paid and reported loss development patterns are based on the Group's historical claims experience. These patterns are updated as of each annual evaluation to incorporate and reflect the most recent claims experience. The estimate of initial expected losses is most significant for immature policy periods, where it is given the greatest weight in determining unpaid claim liabilities. Initial expected losses are derived based on the Group's historical experience adjusted for the impact of inflationary trends on loss costs and the impact of historical changes in rates charged to policyholders. As the experience in each policy year matures, the weight assigned to the initial expected losses decreases with greater weight assigned to actual loss experience.</p> <p>The actuarial analysis performed by the Group's actuaries employs commonly used actuarial techniques for estimating the Group's Provision for unpaid and unreported claims. These include the Paid Loss Development Method, Reported Loss Development Method, the Bornhuetter-Ferguson Method (applied to both paid and reported losses), and the Case Reserve Development Method. The particular methods employed in the analysis of each reserve segment are judgmentally selected based on the applicability of each method and the availability of data to use each particular method.</p> <p>There have been no material changes in the assumptions or methodology underlying the actuarial analysis in the year under review.</p>	<p>The Group has policies and procedures in place to reduce the risk exposure, which includes strict claims review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims. Further, the Group enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.</p> <p>The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Group's risk appetite as determined by management.</p> <p>Estimates of losses are continually reviewed and modified to reflect current conditions. Although management believes, based on the recommendations of the Group's actuaries, that the Provision for unpaid and unreported claims will be adequate to cover the ultimate cost of losses to the balance sheet date, the provision is necessarily an estimate and claims may ultimately be settled for greater or lesser amounts. It is reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences are recorded in the Gross change in contract liabilities on the Consolidated Statement of Operations in the period in which they are determined.</p>

12.2.2 Claims Development Table

The following tables show the estimates of cumulative incurred claims, including both claims notified and incurred but not reported (IBNR) reserves for each successive accident year at each reporting date, together with cumulative payments to date.

The tables below excludes claims information arising from the group health insurance policies issued by the Insured employee benefits operating segment. The amount and timing of the claims from these policies are typically resolved within one year.

The Group has taken advantage of the transitional rules of IFRS 4 that permit a first-time adopter to not disclose information about claims development that occurred earlier than five years before the end of the financial year in which it applies IFRS 4. This will be developed in each succeeding additional year, until ten years of information is included.

Gross claims:

Accident year:	2008 and prior	2009	2010	2011	2012	Total
Estimate of ultimate liability ⁽¹⁾						
as at end of accident year	82,406	10,194	13,221	15,711	15,942	-
one year later	80,730	10,067	13,353	14,763	-	-
two years later	81,340	11,701	13,094	-	-	-
three years later	83,335	11,398	-	-	-	-
four years later	83,925	-	-	-	-	-
Current estimate of cumulative liability	83,925	11,398	13,094	14,763	15,942	139,122
Cumulative payments to date	(81,141)	(9,939)	(10,788)	(12,643)	(8,651)	(123,162)
TOTAL GROSS LIABILITY ⁽²⁾	2,784	1,459	2,306	2,120	7,291	15,960

Net claims:

Accident year:	2008 and prior	2009	2010	2011	2012	Total
Estimate of net ultimate liability ⁽¹⁾						
as at end of accident year	48,264	7,649	10,801	11,973	12,642	-
one year later	48,777	7,554	10,758	11,085	-	-
two years later	49,272	7,398	10,124	-	-	-
three years later	50,486	7,399	-	-	-	-
four years later	50,698	-	-	-	-	-
Current estimate of net cumulative liability	50,698	7,399	10,124	11,085	12,642	91,948
Cumulative payments to date	(48,576)	(6,818)	(8,626)	(9,467)	(6,873)	(80,360)
TOTAL NET LIABILITY ⁽³⁾	2,122	581	1,498	1,618	5,769	11,588

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at year end.

(2) This represents the Provision for unpaid and unreported claims on the Consolidated Balance Sheet less the provision related to the group health insurance contracts amounting to \$13,088,000.

(3) This represents the provision as discussed in (2) net of reinsurance of \$4,372,000 which is the Reinsurer's share of claims provisions of \$4,392,000 less amounts related to the group health insurance contracts of \$20,000.

12.3 UNEARNED PREMIUMS

FOR THE YEARS ENDED MARCH 31	2012			2011		
	Unearned premiums	Reinsurer's share of Unearned premiums	Net	Unearned premiums	Reinsurer's share of Unearned premiums	Net
Balance, beginning of year	19,436	10,463	8,973	18,160	9,811	8,349
Premiums written during the year	167,985	42,507	125,478	157,087	41,175	115,912
Premiums earned during the year	(167,862)	(42,110)	(125,752)	(155,811)	(40,523)	(115,288)
BALANCE, END OF YEAR	19,559	10,860	8,699	19,436	10,463	8,973

The Group is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy cost. Evaluations are performed regularly to estimate future claim costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at March 31, 2012 or 2011.

13 INVESTMENT CONTRACT LIABILITIES

Carrying values and estimated fair values of the Investment contract liabilities are as follows:

	MARCH 31, 2012		MARCH 31, 2011	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration pension plans	60,967	60,029	182,422	182,313
Funding group policies	5,935	5,935	4,802	4,802
	66,902	65,964	187,224	187,115
At FVTPL:				
Deposit accounted annuity policies	2,862	2,862	4,835	4,835
TOTAL INVESTMENT CONTRACT LIABILITIES	69,764	68,826	192,059	191,950

13.1 INVESTMENT CONTRACT LIABILITIES AT AMORTISED COST

The fair value estimated for Investment contract liabilities carried at amortised cost is based on the following methods:

- Deposit administration pension plans – approximated by the fair value of the investments supporting the liability.
- Funding group policies – the carrying value approximates the fair value due to the short-term nature of these investment contract liabilities.

The change in Investment contract liabilities measured at amortised cost is a result of the following:

FOR THE YEARS ENDED MARCH 31	Note	2012	2011
Balance, beginning of year		187,224	176,232
Deposits		81,792	78,967
Withdrawals		(69,872)	(67,733)
Transfer to segregated funds	27	(136,889)	-
Other net transfers		4,123	1,802
Fees deducted		(4,540)	(4,618)
Interest		3,931	4,330
Other		1,133	(1,756)
BALANCE, END OF YEAR		66,902	187,224

For the year ended March 31, 2012, the net gain relating to investment contracts measured at amortised cost is \$637,000 (2011 – \$3.4 million).

13.2 INVESTMENT CONTRACT LIABILITIES AT FVTPL

Fair value of the Deposit accounted annuity policies is determined by using valuation techniques, such as discounted cash flow methods. A variety of factors are considered in the valuation techniques, including yield curve, credit spread and default assumptions, which have market observable inputs. These investment contract liabilities are classified as Level 2 instruments in the fair value hierarchy. See Note 3.2 for a description of the hierarchy for determining fair value of financial instruments.

The change in investment contract liabilities at FVTPL is a result of the following:

FOR THE YEARS ENDED MARCH 31	2012	2011
Balance, beginning of year	4,835	4,058
Included in net income ⁽¹⁾	(184)	(175)
Deposits	2,786	3,939
Withdrawals	(4,575)	(2,987)
BALANCE, END OF YEAR	2,862	4,835

⁽¹⁾ Amount is recorded under Change in contract liabilities on the Consolidated Statement of Operations.

For the year ended March 31, 2012, the net gain relating to Investment contract liabilities at FVTPL is \$184,000 (2011 – gain of \$175,000) and is recorded in Gross change in contract liabilities on the Consolidated Statement of Operations.

14 RISK MANAGEMENT

14.1 GOVERNANCE FRAMEWORK

The primary objective of the Group's risk and financial management framework is to protect the Group's Shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognises the critical importance of having efficient and effective risk management systems in place.

The Group has established a risk management function with clear terms of reference from the Board of Directors, its committees and the associated executive management committees. This is supplemented by a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and vice presidents. In addition, a Group policy framework which sets out the risk profiles for the Group, risk management, control and business conduct standards for the Group's operations is in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Group.

The Board of Directors approves the Group's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

14.2 CAPITAL MANAGEMENT

The Group's capital base is structured to exceed regulatory targets and desired capital ratios, maintain satisfactory credit ratings, align the profile of assets and liabilities taking account of risks inherent in the businesses, provide flexibility to take advantage of growth opportunities and provide an adequate return to shareholders. Capital is managed on a consolidated basis under principles that consider all the risks associated with the businesses. It is also managed at the operating segment level under the principles appropriate to the jurisdiction in which it operates.

Management monitors the adequacy of the Group and its operating subsidiaries' capital from the perspective of Bermuda, Gibraltar and Malta statutory requirements. The Group maintained levels above the minimum local regulatory requirements at March 31, 2012, 2011 and 2010 as further described below. The Group's capital base consists of Share capital, Contributed surplus, Retained earnings and Accumulated other comprehensive loss as disclosed on the Consolidated Balance Sheet.

The operations of the Group are also subject to regulatory requirements within the jurisdictions in which they operate. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

The Bermuda Insurance Act 1978 and Related Regulations, the Gibraltar Insurance Companies Act 1987 and the Maltese Insurance Intermediaries Act (the Acts) require the Group's insurance subsidiaries to meet minimum solvency margins.

The statutory capital and surplus and minimum solvency margin of the Group's insurance subsidiaries are shown below:

	Bermuda	Europe	Total
Statutory capital and surplus	105,259	14,524	119,783
Minimum solvency margin	24,481	5,606	30,087

In addition, minimum liquidity ratios must be maintained whereby relevant assets, as defined by the Acts, must exceed 75 percent of relevant liabilities.

Each one of the Group's insurance subsidiaries meets all requirements of the Acts and there are no restrictions on the distribution of Retained earnings.

14.3 FINANCIAL INSTRUMENT RISK MANAGEMENT

The Group has policies relating to the identification, measurement, monitoring, mitigation, and control of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risks which include currency, interest rate and other price risks including equity risks. The following describe how the Group manages these risks:

- Investment portfolios are monitored and reviewed regularly for investment quality with the Board of Directors and the Investment Committee of the Board;
- Credit ratings as determined by recognised external credit rating agencies are regularly monitored to ensure these meet the Group's Investment guidelines;
- Investment guidelines specify collateral requirements and concentration limits; and
- Reinsurance is placed with counterparties that have a strong credit rating. Management regularly monitors and performs an assessment of creditworthiness of reinsurers.

14.3.1 Credit Risk

The Group has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in perceived financial strength or be unable to pay amounts in full when due.

The concentration of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. By the nature of the business, reinsurers interact with similar customers in similar markets. However, the Group uses a panel of reinsurers with global operations and diversified portfolios and limits its exposure to any one reinsurer.

14.3.1(a) Maximum Exposure to Credit Risk

The following table summarises the Group's maximum exposure to credit risk related to financial instruments and insurance contracts. The maximum credit exposure is the carrying value of the financial assets and insurance assets net of any allowances for losses.

	Note	MARCH 31 2012	MARCH 31 2011
Cash and short-term investments		46,127	26,245
Interest and dividends receivable		404	850
Bonds – at FVTPL and Held-to-maturity	3.1	86,020	171,503
Mortgages and loans	3.1	46,650	46,320
Receivables from reverse repurchase transactions	3.1	2,700	17,300
Policy loans	3.1	61	66
Derivative financial instruments	3.1	(137)	89
Receivable for investments sold		-	12,672
Other financial assets included in Other assets	7	4,743	4,715
Insurance balances receivable	5	22,164	18,372
Reinsurers' share of claims provisions	12	11,573	13,758
TOTAL CONSOLIDATED BALANCE SHEET MAXIMUM CREDIT EXPOSURE		220,305	311,890

Credit risk is mitigated by entering into collateral agreements for mortgages and loans. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment evaluation on a regular basis. The Group manages credit risk by its specific investment diversification requirements such as investing by asset class, geography and industry, review of credit quality ratings for portfolio investments and an active credit risk governance, including independent monitoring and review and reporting to senior management and the Board.

14.3.1(b) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following tables provide details of the carrying value of bonds and derivative financial instruments by industry sector and geographic distribution.

	MARCH 31 2012	MARCH 31 2011
Bonds issued or guaranteed by:		
Banking and finance	13,374	69,592
Agency	-	33,093
Federal government	24,427	5,591
Pharmaceutical	1,294	5,514
Utilities and energy	4,302	4,767
Transportation	1,189	2,228
Communications	2,582	5,937
Oil and gas	3,094	8,394
Insurance	3,521	6,806
Asset-backed securities	12,082	9,394
Manufacturing	615	5,329
Mining	1,628	2,746
Other	17,040	12,112
Supra National	872	-
TOTAL BONDS	86,020	171,503
Derivative financial instruments issued or guaranteed by:		
Federal government	(45)	30
Other	(92)	59
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	(137)	89

	MARCH 31 2012	MARCH 31 2011
Geographical distribution of bonds is as follows:		
United States	72,411	103,734
Bermuda	3,633	3,651
United Kingdom	5,335	21,212
Netherlands	-	6,708
Germany	-	1,980
Canada	557	6,253
France	-	3,274
Sweden	-	3,457
Switzerland	-	2,087
Other	4,084	19,147
TOTAL BONDS	86,020	171,503

Geographical distribution of derivative financial instruments is as follows:

United States	(137)	89
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	(137)	89

Mortgages comprise first mortgages on real property situated in Bermuda. The following table provides details of the carrying value split into residential and non-residential. Residential mortgages include mortgages for both single and multiple family dwellings.

	MARCH 31 2012	MARCH 31 2011
Residential	10,350	8,291
Non-residential	36,300	38,029
TOTAL MORTGAGES AND LOANS	46,650	46,320

14.3.1(c) Asset Quality

14.3.1(c)(i) Bonds and derivative financial instruments by credit rating

The following table provides an analysis of the carrying value of bonds and derivative financial instruments by rating.

	MARCH 31 2012	MARCH 31 2011
Bond portfolio quality:		
AAA	11,934	58,531
AA	38,744	46,519
A	13,671	37,822
BBB	9,829	15,856
BB	5,487	3,903
B	1,276	1,929
Not rated	4,162	4,016
Cash	917	2,927
TOTAL BONDS	86,020	171,503
Derivative financial instruments quality:		
AAA	(45)	103
Not rated	(92)	(14)
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	(137)	89

14.3.1(c)(ii) Allowance for credit losses on impaired investments**Mortgage and loans**

Changes in the allowance for credit losses are as follows:

	MARCH 31 2012	MARCH 31 2011
Balance, beginning of year	25,057	33,100
Net provision made in year – Mortgages	401	1,957
Net provision transferred to Equities	-	(10,000)
BALANCE, END OF YEAR	25,458	25,057

In December 2010, subordinated debt with a carrying value of \$15.5 million (net of \$10 million provision) was converted to preference shares with voting rights and accordingly reclassified from Mortgage and loans to Equities – available for sale. Subsequently in 2011, as a result of the absence of objective evidence to support the recovery in fair value, an additional provision of \$15.5 million was made to adjust the carrying value of these preference shares to \$nil.

Held-to-maturity bonds

During the year, the Group recognised \$310,000 (2011 – \$nil) of impairment provision on a bond portfolio classified as held-to-maturity.

14.3.1(c)(iii) Age analysis of financial assets past due but not impaired and impaired

MARCH 31, 2012	Past due but not impaired			Total	Total impaired
	Less than 90 days	90 to 179 days	180 days or more		
Mortgage and loans	141	151	327	619	25,458
Other receivables included in Other assets	26	27	23	76	304
TOTAL	167	178	350	695	25,762

MARCH 31, 2011	Past due but not impaired			Total	Total impaired
	Less than 90 days	90 to 179 days	180 days or more		
Mortgage and loans	118	76	265	459	25,057
Other receivables included in Other assets	26	156	11	193	304
TOTAL	144	232	276	652	25,361

Past due financial assets of \$695,000 at March 31, 2012 (2011 – \$652,000) do not have an allowance for losses because at a minimum, either the fair value of the collateral or the expected future cash flows exceed the carrying value of these financial assets.

14.3.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet all cash outflow obligations as they come due. The Group's asset-liability management process allows it to maintain its good financial position by ensuring that sufficient liquid assets are available to cover its potential funding requirements. The Group invests in various types of assets with a view to matching them with its liabilities. To strengthen its liquidity further, the Group actively manages and monitors its capital and asset levels, diversification and credit quality of its investments and cash forecasts and actual amounts against established targets.

The short-term (less than one year) liquidity needs are more than adequately met by maturing bonds, mortgages and loans, the sale of equities, as well as by current operating cash flows. Historically, the Deposit administration pension plan liabilities renew for further periods upon maturity and remain with the Group. Longer duration cash flows are also backed by a broader range of asset classes including equity and other non-fixed income assets.

Reinvestment strategies and policies are in place for maturing assets backing longer-term liabilities and are reflected in the Life and annuity policy reserves. Based on the Group's historical cash flows and current financial performance,

management believes that the cash flow from the Group's operating activities will continue to provide sufficient liquidity for the Group to meet its contractual obligations and to pay other expenses, as they fall due.

Maturity profiles

Asset maturity profile:

The maturity profile of the financial assets and insurance assets by contractual maturity is shown below.

For the derivative financial instruments, the total fair value is disclosed in the "within 1 year" column as the Group manages liquidity risk for a trading portfolio of derivatives on the basis of fair value and management believes that this presentation more accurately reflects the liquidity of the markets in which the financial instruments are traded and the availability of market observable inputs to measure these instruments.

MARCH 31, 2012	Effective interest rate ranges	Within 1 year	2-5 years	6-10 years	Over 10 years	Carrying value
Cash and short-term investments		46,127	-	-	-	46,127
Interest and dividends receivable		404	-	-	-	404
Bonds – at FVTPL and Held-to-maturity	0.12%-11.30%	12,544	4,509	19,542	49,425	86,020
Mortgages and loans	5.64%-9.38%	23,336	12,500	2,911	7,903	46,650
Receivables from reverse repurchase transactions	0.00%	2,700	-	-	-	2,700
Policy loans		61	-	-	-	61
Derivative financial instruments		(137)	-	-	-	(137)
Insurance balances receivable		22,164	-	-	-	22,164
Other receivables included in Other assets		2,777	1,966	-	-	4,743
TOTAL FROM GENERAL FUND ASSETS		109,976	18,975	22,453	57,328	208,732

MARCH 31, 2011	Effective interest rate ranges	Within 1 year	2-5 years	6-10 years	Over 10 years	Carrying value
Cash and short-term investments		26,245	-	-	-	26,245
Interest and dividends receivable		850	-	-	-	850
Bonds – at FVTPL and Held-to-maturity	0.01%-10.46%	11,345	88,299	35,643	36,216	171,503
Mortgages and loans	5.64%-9.39%	23,263	11,577	4,463	7,017	46,320
Receivables from reverse repurchase transactions	0.09%-0.14%	17,300	-	-	-	17,300
Policy loans		66	-	-	-	66
Derivative financial instruments		89	-	-	-	89
Receivable for investments sold		12,672	-	-	-	12,672
Insurance balances receivable		18,372	-	-	-	18,372
Other receivables included in Other assets		3,223	1,492	-	-	4,715
TOTAL FROM GENERAL FUND ASSETS		113,425	101,368	40,106	43,233	298,132

Liability maturity profile:

The following is an analysis by liability type of the estimated timing of net cash flows based on the Group's liabilities. The settlement profile is based on current estimates and historical trends and the actual timing of future cash flows may differ materially from the disclosure below.

MARCH 31, 2012	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves					
– net of reinsurance	10,727	41,246	45,574	111,696	209,243
Provision for unpaid and unreported claims					
– net of reinsurance	24,656	-	-	-	24,656
Insurance balances payable	12,751	-	-	-	12,751
Investment contract liabilities	3,448	10,199	8,022	48,161	69,830
Tax payable	188	-	-	-	188
Accounts payable and accrued liabilities	14,730	-	-	-	14,730
Loan payable	6,000	1,843	-	-	7,843
Post-employment benefit liability	123	611	1,015	3,461	5,210
TOTAL FROM GENERAL FUND LIABILITIES	72,623	53,899	54,611	163,318	344,451

MARCH 31, 2011	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves					
– net of reinsurance	10,276	39,497	44,924	114,758	209,455
Provision for unpaid and unreported claims					
– net of reinsurance	22,106	-	-	-	22,106
Insurance balances payable	14,613	-	-	-	14,613
Investment contract liabilities	22,480	24,610	30,851	112,746	190,687
Payable for investments purchased	20,821	-	-	-	20,821
Tax payable	249	-	-	-	249
Accounts payable and accrued liabilities	17,088	-	-	-	17,088
Dividend payable	2,103	-	-	-	2,103
Loan payable	6,000	7,843	-	-	13,843
Post-employment benefit liability	116	541	935	3,358	4,950
TOTAL FROM GENERAL FUND LIABILITIES	115,852	72,491	76,710	230,862	495,915

14.3.3 Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

14.3.3(a) Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The following policies and procedures are in place to mitigate the Group's exposure to currency risk.

- The Group regularly monitors the effect of currency translation fluctuations;
- Investments are normally made in the same currency as the liabilities supported by those investments;
- The majority of the Group's assets, liabilities and earnings are denominated in Bermuda or United States dollars; and
- The assets and liabilities of the foreign operations are held in the functional currency. The net currency exposure arising from the net equity within these operations amounts to £9.5 million and €933,000 (2011 – £7.3 million and €2.6 million and 2010 – £7 million and €1.2 million).

The analysis that follows, showing the impact on equity due to changes in the fair value of currency sensitive monetary assets and liabilities including insurance contract liabilities is performed for reasonably possible movements in key variables with all other variables held constant. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

Currency	Change in variables	MARCH 31	MARCH 31
		2012	2011
		Impact on equity	Impact on equity
GBP	+10%	950	730
EUR	+10%	93	260
GBP	-10%	(950)	(730)
EUR	-10%	(93)	(260)

14.3.3(b) Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in market interest rates can impact the reinvestment of matured investments, as the returns available on the new investment may be significantly different from the returns previously achieved. The Group manages these risks through:

- Asset allocation and diversification of the investment portfolio;
- Investing in fixed income assets that closely match the life liability product cash flows for products with fixed and highly predictable benefit payments; and
- Quantifying and reviewing regularly the risk associated with the mismatch in portfolio duration and cash flow.

The impact of interest rate risk for the Group's actuarial liabilities and the assets supporting those liabilities is included in Note 12. Management considers that there is no material net interest rate risk on fixed-income investments which support non-life insurance liabilities.

The Group issues unit-linked investment policies with and without a guaranteed return in a number of its operations. For unit-linked policies without a guaranteed return under Segregated Funds, the policyholder bears the investment risk on the assets held in the unit-linked fund. The value of the policy benefits is directly linked to the value of the assets in the fund. The Group's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

For unit-linked policies with a guaranteed return under the General funds and Segregated funds, the Group bears the investment risk to the extent that the actual rate of return of the unit-linked funds falls below the guaranteed rate of return. For these types of policies, the Group ensures that (i) the liabilities and asset cash flows are closely matched and (ii) the valuation of the liabilities and assets are monitored regularly.

14.3.3(c) Equity Risk

The majority of the equities are held to back long-term liabilities or those where it is expected that the liabilities will renew at maturity at then current market rates. Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. If actual returns are lower than the expected returns, the Group's Life and annuity policy reserves will increase and will reduce the Group's net earnings. Overall, it is expected that the impact of an immediate ten percent increase in value across all equity markets would be an increase in Net earnings and Other comprehensive income of \$5.5 million (2011 – \$6.9 million); conversely the impact of a ten percent decrease would have an equal but opposite effect. The direct exposure to equity markets generally falls within the risk-taking philosophy of the Group's investment policy and is regularly monitored by management.

14.3.4 Limitations of sensitivity analysis

The sensitivity information given in Note 14.3 above and in Note 12 demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions such as instances when risk free interest rates fall towards zero.

14.4 INSURANCE RISK MANAGEMENT

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is monitored by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Group purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure to mitigate both risk frequency and risk severity of the Group to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Group's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

For details on insurance risk management policies of the Group's insurance operating segments, see Note 12.

15 POST-EMPLOYMENT BENEFIT LIABILITY

The Group operates a defined benefit plan which provides medical benefits to eligible retired employees and their spouses. The defined benefit liability is calculated using the projected unit credit actuarial cost method. The present value of the defined benefit liability is determined by discounting the estimated future cash flows using interest rates of AA rated corporate bonds that have terms to maturity that approximate to the terms of the related post-employment benefit liability.

The movement in the defined benefit liability is as follows:

FOR THE YEARS ENDED MARCH 31	2012	2011
Balance, beginning of year	3,625	6,076
Movements during the year recognised in the Operating expenses:		
Current service cost	111	526
Interest cost on benefit liability	179	317
Plan amendments and curtailment	-	(4,216)
Net actuarial gains	261	1,007
Benefits paid	(98)	(85)
BALANCE, END OF YEAR	4,078	3,625

Components of the change in benefit liabilities year on year and other employee future benefit expense are as follows:

- (i) Current service cost represents benefits earned in the current year. These are determined with reference to the current workforce eligible for benefits and the amount of benefits to which they will be entitled upon retirement, based on the provisions of the Group's benefit plan.
- (ii) Interest cost on the benefit liability represents the increase in the liability that results from the passage of time.
- (iii) Effective March 31, 2011, the Group's post-employment medical benefits were amended whereby eligibility, benefits and cost sharing were modified for current active employees.
- (iv) Each year the actuaries recalculate the benefit liability and compare it to that estimated as at the prior year end. Any differences resulting from changes in assumptions, or from plan experience being different from expectations of management at the previous year end, are considered actuarial gains or losses.

The significant actuarial assumptions in measuring the Group's accrued benefit liability are estimated as follows:

	MARCH 31 2012	MARCH 31 2011
Discount rate	5%	5%
Healthcare cost trend rate	8%	7%

The discount rate assumption has a significant impact on the value of the obligation. A one percent increase in this rate would reduce the present value of the defined benefit obligation by \$515,000.

Healthcare cost calculations are based on trend rate assumptions which may differ from actual results. Changes in trend rate assumptions by one percent in either direction will change the healthcare cost as follows:

	Increase	Decrease
Aggregate of current service cost and interest cost	21	(17)
Accrued benefit liability	599	(499)

16 INSURANCE BALANCES PAYABLE

Insurance balances payable is comprised of:

MARCH 31, 2012	Insured employee benefits	Life and pensions	Property and casualty	Total
Due to policyholders, agents and brokers	8	4,526	1,126	5,660
Due to reinsurers	801	1,076	2,742	4,619
Deferred commission income	-	-	2,472	2,472
TOTAL INSURANCE BALANCES PAYABLE	809	5,602	6,340	12,751
MARCH 31, 2011	Insured employee benefits	Life and pensions	Property and casualty	Total
Due to policyholders, agents and brokers	58	4,359	2,590	7,007
Due to reinsurers	609	1,385	3,342	5,336
Deferred commission income	-	-	2,270	2,270
TOTAL INSURANCE BALANCES PAYABLE	667	5,744	8,202	14,613
APRIL 1, 2010	Insured employee benefits	Life and pensions	Property and casualty	Total
Due to policyholders, agents and brokers	303	1,050	1,429	2,782
Due to reinsurers	833	1,293	2,755	4,881
Deferred commission income	-	-	1,805	1,805
TOTAL INSURANCE BALANCES PAYABLE	1,136	2,343	5,989	9,468

A reconciliation of the change in deferred commission income is shown below:

FOR THE YEARS ENDED MARCH 31	2012	2011
Balance, beginning of year	2,270	1,805
Deferral during the year	11,681	11,083
Income for the year	(11,478)	(10,632)
Foreign exchange rate movements	(1)	14
BALANCE, END OF YEAR	2,472	2,270

17 LOAN PAYABLE

	MARCH 31 2012	MARCH 31 2011	APRIL 1 2010
Carrying value	7,843	13,843	19,843
Fair value	7,843	13,843	19,843

In April 2007, the Group obtained mortgage finance of \$30 million from the Bank of N.T. Butterfield & Son Limited in order to finance the development of the new corporate headquarters. Draw downs on the facility ceased in April 2009, with the total loan principal of \$27.8 million, including \$2 million of accrued interest which had been capitalised. The loan is secured by real estate owned by the Group and co-collateralised by a guarantee from the Company and is repayable over five years at \$500,000 per month plus interest, commencing on April 30, 2009. Interest is charged at the bank's base rate plus one percent per annum. Interest expense on the mortgage for the year was \$528,000 (2011 – \$812,000).

18 EARNINGS PER SHARE

The following table reflects the net earnings/(loss) and share data used in the basic and diluted earnings per share computations:

FOR THE YEARS ENDED MARCH 31	2012	2011
Net earnings/(loss) for the year	1,696	(6,092)
Weighted average outstanding common shares	21,033	21,032
COMMON SHARES AND COMMON SHARE EQUIVALENTS	21,033	21,032

19 NET CHANGE IN UNEARNED PREMIUMS

FOR THE YEARS ENDED MARCH 31	2012	2011
Gross change in unearned premiums	(123)	(1,276)
Change in unearned premiums on premiums ceded	397	652
NET CHANGE IN UNEARNED PREMIUMS	274	(624)

20 REINSURANCE RECOVERIES

FOR THE YEARS ENDED MARCH 31	2012	2011
Claims and adjustment expenses recovered from reinsurers	6,513	5,769
Policy benefits recovered from reinsurers	4,613	3,531
TOTAL REINSURANCE RECOVERIES	11,126	9,300

21 NET CHANGE IN CONTRACT LIABILITIES

FOR THE YEARS ENDED MARCH 31	2012	2011
Gross change in contract liabilities:		
Insurance contracts	6,285	(1,471)
Investment contracts	16	477
	6,301	(994)
Change in reinsurers' share of claims provisions:		
Insurance contract liabilities	2,180	4,376
Investment contract liabilities	-	-
	2,180	4,376
NET CHANGE IN CONTRACT LIABILITIES	8,481	3,382

22 COMMISSIONS, MANAGEMENT FEES AND OTHER

Commissions, management fees and other income recognised during the year are as follows:

FOR THE YEARS ENDED MARCH 31	2012	2011
Policyholder administration and investment management services	20,864	19,441
Reinsurance commission income	12,488	11,815
Other income	213	71
TOTAL COMMISSIONS, MANAGEMENT FEES AND OTHER	33,565	31,327

23 OPERATING EXPENSES

Operating expenses incurred during the year are as follows:

FOR THE YEARS ENDED MARCH 31	2012	2011
Employee benefits expense (see table below)	22,536	17,594
Professional fees	4,644	6,561
Marketing expenses	1,093	1,094
IT related expenses	2,122	1,869
Building related expenses	2,437	3,719
General and corporate expenses	2,419	2,560
Other expenses	3,756	2,960
TOTAL OPERATING EXPENSES	39,007	36,357

Employee benefits expense during the year is comprised of:

FOR THE YEARS ENDED MARCH 31	Note	2012	2011
Salaries and other short-term benefits		21,069	18,959
Pension costs ⁽¹⁾		906	839
Post-employment medical benefits	15	453	1,765
Effect of plan amendments and curtailment	15	-	(4,216)
Stock-based compensation	24	108	247
TOTAL EMPLOYEE BENEFITS EXPENSE		22,536	17,594

⁽¹⁾ Pension costs arise from the Group's defined contribution pension plan covering all full-time employees in Bermuda and Gibraltar.

24 STOCK-BASED COMPENSATION

As at March 31, 2012, the Group has two stock-based compensation plans, which are described below. The total compensation cost that has been charged against net earnings for these plans for the year ended March 31, 2012 was \$108,000 (2011 – \$247,000).

24.1 STOCK OPTION PLANS

Under the Group's 2004 Stock Option Plan, options were granted to key management employees at exercise prices not less than the fair market value of the Group's shares on the date the option was granted. Options become exercisable at the rate of 25 percent per year commencing one year after the date of grant and options not exercised lapse ten years after the date of grant. The consideration paid by employees on exercise of share options is credited to Share capital and Contributed surplus on the Consolidated Balance Sheet. Shares under option and option prices per share are adjusted for all stock dividends declared subsequent to the date of grant. The fair value of these awards is recognised over the applicable vesting period as Employee benefits expense and Contributed surplus. The fair value of options on the date of grant was determined using the Black-Scholes option pricing model.

At the Annual General Meeting of Shareholders held on July 26, 2007, the Directors were granted authority to cease issuing further stock options under the Group's 2004 Stock Option Plan and, in its stead, adopted the 2007 Restricted Stock Plan as described in note 24.2 below. Stock options granted prior to this date remain valid and the terms and conditions of the 2004 Stock Option Plan continue to apply thereto until expiration. There have been no stock options granted since 2007.

The following table summarises the activity under the Group's stock option plan:

FOR THE YEARS ENDED MARCH 31	2012		2011	
	Total number of shares under option	Weighted average exercise price	Total number of shares under option	Weighted average exercise price
Outstanding, beginning of year	362,952	\$8.90	431,527	\$8.54
Changes during the year:				
Exercised	-	-	-	-
Expired/forfeited	-	-	(68,575)	\$6.63
OUTSTANDING, END OF YEAR	362,952	\$8.90	362,952	\$8.90
EXERCISABLE, END OF YEAR	362,952	\$8.90	362,952	\$8.90

The weighted average remaining contractual life of options outstanding is 2.45 years (2011 – 3.45 years). The range of fair values of options outstanding is \$2.16 to \$5.17. The total compensation expense recognised in the current year was \$nil (2011 – \$29,000) and has been included in Operating expenses on the Consolidated Statement of Operations. The characteristics as at March 31, 2012, of options granted in earlier years are as follows:

Fiscal year	Exercise price	Number of Shares	
		Outstanding	Exercisable
2003	\$7.20	59,617	59,617
2004	\$5.95	57,377	57,377
2005	\$8.95	78,117	78,117
2006	\$9.04	79,260	79,260
2007	\$11.78	88,581	88,581
	\$8.90	362,952	362,952

24.2 RESTRICTED STOCK PLAN

The purpose of the 2007 Restricted Stock Plan is to enhance the Group's ability to attract and retain the services of certain key employees and to incentivise such persons to devote their utmost effort and skill to the growth of the Group by providing them with an interest in its long-term growth and stability. Under the Restricted Stock Plan, the maximum number of shares that may be granted is 250,000 over the five-year life of the plan.

Shares are granted unvested and vest at the rate of 33 1/3 percent at the end of each year for three years after the date of grant. The fair value of each share granted under the Restricted Stock Plan is based upon the market price at the date of grant. There were no grants or forfeitures for the years ended March 31, 2012 and 2011. The total compensation cost recognised in the current year was \$108,000 (2011 – \$218,000) and has been included in Operating expenses on the Consolidated Statement of Operations. At March 31, 2012 there was \$nil (2011 – \$113,000) of total unrecognised compensation cost related to non-vested shares granted under the plan.

25 RELATED PARTY TRANSACTIONS

All related party transactions were conducted in the normal course of business.

25.1 TRANSACTIONS WITH SIGNIFICANTLY INFLUENCED INVESTEES

25.1.1 The Group provided insurance-related products and services to various significantly influenced investees. The premiums and fees received from these transactions totalled \$635,000 in the year and are shown as Gross premium written and Commission, management fees and other on the Consolidated Statement of Operations (2011 – \$695,000).

Receivables and payables arising from insurance contracts and service contracts with the significantly influenced investees are as follows:

	MARCH 31 2012	MARCH 31 2011	APRIL 1 2010
Insurance balances receivable	28	15	15
Receivable from Funding group policies ⁽¹⁾	192	-	-
Accounts payable arising from administration of the defined benefit pension plans ⁽²⁾	(472)	82	15
Investment contract liabilities	-	(101)	(367)

(1) Included in Other assets

(2) (Included)/netted against Accounts payable and other liabilities

25.1.2 The Group rented office premises from a significantly influenced investee paying a total of \$454,000 in rent and service charges in the year which are shown in Operating expenses in the Consolidated Statement of Operations (2011 – \$453,000).

25.1.3 The Group received facilities management services from a significantly influenced investee for the consideration amount of \$1.1 million which is shown net of Investment income on the Consolidated Statement of Operations (2011 – \$1.0 million).

25.2 COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel have been identified as the Board of Directors and Officers of the Company. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Group. The summary of compensation of key management personnel for the year is as follows:

FOR THE YEARS ENDED MARCH 31	2012	2011
Salaries and other short-term benefits	1,758	1,380
Post-employment benefits ⁽¹⁾	93	(45)
Stock-based compensation	11	23
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	1,862	1,358

(1) Includes pension costs and post-employment medical benefits

25.3 DIRECTORS' AND OFFICERS' SHARE INTERESTS AND SERVICE CONTRACTS

The total interests of all Directors and Officers of the Company in the shares of the Company at March 31, 2012 was 711,080 shares.

With the exception of the employment contracts with Mr. G. D. E. Simons and the Chief Executive Officer, Ms. A. S. Hill and a consultancy agreement with one non-executive director, there are no other service contracts with the Directors.

26 INCOME TAXES

Bermuda

Group entities domiciled in Bermuda received an undertaking from the Bermuda government exempting these companies from all Bermuda local income, withholding and capital gains taxes until 2016. At the present time no such taxes are levied in Bermuda.

Europe

Subsidiaries domiciled in Gibraltar are subject to normal Gibraltar corporation tax at a rate of 10 percent on all taxable profits.

The subsidiary domiciled in Malta is subject to normal Maltese corporation tax at a rate of 35 percent on all taxable profits.

26.1 INCOME TAXES FOR THE YEAR

FOR THE YEARS ENDED MARCH 31	2012	2011
Income taxes for the year	105	197
Adjustments in respect of prior year income taxes	6	(32)
Total current income taxes	111	165
Deferred taxes	1	11
Adjustments in respect of prior year deferred taxes	-	-
TOTAL INCOME TAXES	112	176

26.2 CURRENT INCOME TAXES RECONCILIATION

Tax applying the statutory domestic income tax rate and the tax charge for the year are reconciled as follows:

FOR THE YEARS ENDED MARCH 31	2012	2011
Earnings/(loss) before income taxes	2,062	(5,497)
Less: Earnings/(loss) not subject to taxes	1,127	(6,474)
EARNINGS SUBJECT TO TAXES	935	977
Income taxes at the application rate	94	127
Tax effect of:		
Expenses not deductible for tax purposes	38	48
Difference between depreciation and capital allowances	22	2
Income not taxable	(48)	(18)
Income taxed at 15%	-	(6)
Effects of transitional provisions under the new Gibraltar Income Tax Act	-	(20)
Adjustments to tax charge in respect of previous period	5	-
Provision in excess of assessed tax	-	32
TOTAL CURRENT INCOME TAXES	111	165

26.3 DEFERRED TAXES

	MARCH 31 2012	Deferred income tax (expense)/recovery	MARCH 31 2011
Deferred tax asset arising on Property and equipment ⁽¹⁾	-	(1)	1
Deferred tax liability arising on Property and equipment ⁽²⁾	(11)	-	(11)
NET DEFERRED TAXES	(11)	(1)	(10)

(1) Included in Other assets

(2) Included in Tax payable

	March 31 2011	Deferred income tax (expense)/recovery	April 1 2010
Deferred tax asset arising on Property and equipment ⁽¹⁾	1	-	1
Deferred tax liability arising on Property and equipment ⁽²⁾	(11)	(11)	-
NET DEFERRED TAXES	(10)	(11)	1

(1) Included in Other assets

(2) Included in Tax payable

27 SEGREGATED FUNDS AND SEPARATE ACCOUNTS

The assets for contracts held under the Segregated funds are allocated to Separate Accounts as authorised by the Bermuda Life Insurance Company Limited (Separate Accounts) Consolidation and Amendment Act 1998 and the Argus International Life Insurance Limited Consolidation and Amendment Act 2008.

Changes to Segregated Funds and a summary of the investments held therein are as follows:

FOR THE YEARS ENDED MARCH 31	2012	2011
Additions to Segregated Funds		
Premiums, contributions and transfers	129,740	155,480
Net investment income	1,121	2,113
Net (decrease)/increase in fair value of investments	(5,858)	70,367
Segregated funds acquired	12,541	510
Transfer from the General Fund	136,889	-
	274,433	228,470
Deductions from Segregated Funds		
Withdrawals, benefit payments and transfers to the General Fund	90,603	221,563
Operating expenses	11,880	13,440
	102,483	235,003
Net additions to Segregated Funds for the year	171,950	(6,533)
Segregated Funds, beginning of year	1,162,743	1,169,276
SEGREGATED FUNDS, END OF YEAR	1,334,693	1,162,743
Consisting of:		
Bonds	33,964	79,784
Stocks and other investments	1,177,530	998,973
Policy loans	34,126	31,125
Cash and short-term investments	88,747	53,080
Other assets/(liabilities)	326	(219)
TOTAL SEGREGATED FUNDS NET ASSETS	1,334,693	1,162,743

Effective March 31, 2012, certain policies previously held under Deposit administration pension plans were amended such that the related assets and liabilities can be included in Segregated funds. The primary reason is to afford the policyholders certain protection from creditors of the Group. As a result of the transfer, the Group has two types of Segregated fund products:

	MARCH 31 2012	MARCH 31 2011
Segregated funds with a guaranteed return	136,889	-
Segregated funds without a guaranteed return	1,197,804	1,162,743
TOTAL SEGREGATED FUNDS	1,334,693	1,162,743

Investments within the Segregated funds with a guaranteed return at March 31, 2012 include \$5.0 million of cash, \$123.2 million of bonds and \$8.7 million of receivables from reverse repurchase transactions.

28 OPERATING SEGMENTS

Transactions between segments are executed and priced on an arm's-length basis in a manner similar to transactions with third parties. These transactions consist primarily of rental and internal financing agreements and insurance contracts. Inter-segment income has been omitted in the following table as immaterial.

28.1 RESULTS BY SEGMENT

FOR THE YEARS ENDED MARCH 31		Insured employee benefits	Life and pensions	Property and casualty ⁽²⁾	All other	Total
Segment revenues	2012	105,425	25,316	15,739	8,307	154,787
	2011	99,139	21,679	9,872	7,498	138,188
Investment income ⁽¹⁾	2012	398	5,910	(1,350)	2,709	7,667
	2011	638	4,487	(17,480)	2,616	(9,739)
Amortisation and depreciation	2012	483	532	4,328	7	5,350
	2011	560	772	3,387	1,138	5,857
Income tax expense	2012	-	-	112	-	112
	2011	-	-	176	-	176
Reportable segment earnings/(loss) attributable to shareholders, after tax	2012	9,782	922	(10,050)	1,042	1,696
	2011	7,665	(853)	(14,671)	1,767	(6,092)

⁽¹⁾ Includes Change in fair value of investments

⁽²⁾ Investment income and Reportable segment loss attributable to shareholders, after tax are net of impairment losses arising from the Investment in NGH per Note 4 (2011 – impairment losses arising from Investments per Note 3.6)

GEOGRAPHIC INFORMATION ON SEGMENT REVENUES:

FOR THE YEARS ENDED MARCH 31		Bermuda	Europe	Total
Segment revenues	2012	138,401	16,386	154,787
	2011	124,003	14,185	138,188

Management considers its external customers to be the individual policyholders and as such, the Group is not reliant on any individual customer.

28.2 ASSETS AND LIABILITIES BY SEGMENT:

	Insured employee benefits	Life and pensions	Property and casualty	All other	Total
MARCH 31, 2012:					
Total General Fund Assets	53,487	254,533	68,776	9,627	386,423
Segregated Fund Assets	-	1,334,693	-	-	1,334,693
Total General Fund Liabilities	19,580	224,515	55,846	345	300,286
Segregated Fund Liabilities	-	1,334,693	-	-	1,334,693
MARCH 31, 2011:					
Total General Fund Assets	45,098	384,549	81,258	22,554	533,459
Segregated Fund Assets	-	1,162,743	-	-	1,162,743
Total General Fund Liabilities	17,115	358,269	58,654	14,926	448,964
Segregated Fund Liabilities	-	1,162,743	-	-	1,162,743

29 COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

	MARCH 31 2012	MARCH 31 2011
Available-for-sale investments	245	280
Investment in associates	-	305
Translation of financial statements of foreign operations	(1,534)	(1,451)
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME	(1,289)	(866)

30 COMMITMENTS AND CONTINGENCIES

30.1 OPERATING LEASES

30.1.1 Group as a lessor

The Group has entered into non-cancellable commercial property leases on several floors of the Group's office buildings. These leases have remaining terms of between one and four years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum lease rentals receivable under non-cancellable operating leases as at March 31, 2012 are as follows:

Within one year	1,408
After one year but not more than five years	811
More than five years	-

30.1.2 Group as a lessee

The Group has entered into commercial leases on office spaces. These leases have remaining terms of between one and nine years. Certain leases have a renewal option included in the contracts. There are no restrictions placed upon the Group by entering into the leases.

During the year ended March 31, 2012 and 2011 an amount of \$988,000 and \$909,000 respectively, was recognised in Operating expenses on the Consolidated Statement of Operations for operating leases.

Future minimum rentals payable under non-cancellable operating leases as at March 31, 2012, are as follows:

Within one year	783
After one year but not more than five years	1,914
More than five years	1,426

30.2 CONTINGENCIES

- (i) The Group has a 35 percent interest in a company that built an office building in Hamilton, Bermuda. The Group has issued a guarantee in respect of its proportionate share of a term bank loan facility totalling \$9.5 million (2011 – \$10.8 million) for this office building.
- (ii) In May 2009, the Group, Bermuda Life Insurance Company Limited and Argus International Life Bermuda Limited (AILBL) filed with the Supreme Court of Bermuda a claim against Tremont Group Holdings Inc. (Tremont Group) and Tremont (Bermuda) Limited. The Group bought Tremont International Insurance Ltd (TIIL), from the Tremont Group in December 2006, and subsequently changed the company's name to AILBL. The Group continues to pursue a number of claims, amongst them a claim for damages for breach of warranties in the purchase agreement due to the overstatement by the Tremont Group of the assets of TIIL.
- (iii) In 2011, the Group has provided a letter of comfort, expiring in September 2012, to Northstar Reinsurance Ireland Limited, currently in Member's voluntary liquidation, to assist them in meeting their liabilities as and when they fall due.
- (iv) The Group is contingently liable with respect to certain litigation and claims that arise in the normal course of business.

31 TRANSITION TO IFRS

As outlined in Note 2, the Group has adopted IFRS as a replacement of Canadian GAAP effective April 1, 2010. The opening Consolidated Balance Sheet was prepared at April 1, 2010, the date of transition to IFRS in accordance with the requirements of IFRS 1, First-Time Adoption of IFRS.

IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements. In particular, IFRS 1 requires an entity to carry out the following on the opening Consolidated Balance Sheet :

- recognise all assets and liabilities whose recognition is required by IFRS;
- not recognise items as assets or liabilities if IFRS do not permit such recognition;
- reclassify items that it recognised under Canadian GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under IFRS; and
- apply IFRS in measuring all recognised assets and liabilities.

At the date of transition, the Group's estimates under IFRS are consistent with estimates previously made under Canadian GAAP at the same date, after adjusting for differences in accounting policies.

IFRS 1 requires retrospective application of all IFRS with certain optional exemptions and mandatory exceptions.

Where the information for retrospective application is not readily available, impractical or is cost prohibitive, the Group elected to take the following relevant optional exemptions available under IFRS 1:

IFRS 1 OPTIONAL EXEMPTION	GROUP'S DECISION
(i) Business combinations	The Group has taken the option to not restate the accounting for business combinations or acquisitions made prior to the transition date. As a result, no adjustments were required to Retained earnings or other balances.
(ii) Fair value as deemed cost	<p><i>Property and equipment</i> – The Group elected to use historical cost consistent with Canadian GAAP as cost as at the transition date.</p> <p><i>Investment properties</i> – The Group has chosen to measure investment properties using the fair value model as at the transition date.</p>
(iii) Designation of previously recognised financial instruments	<p>Under IFRS, an entity may elect at the transition date to designate a financial asset and financial liability as available-for-sale or at FVTPL, provided certain criteria are met. The Group completed the review of the current classification of its financial assets and liabilities and decided to re-designate all current available-for-sale bonds to FVTPL. This will result in volatility in consolidated earnings given that unrealised gains and losses related to these bonds will be recognised immediately on the Consolidated Statement of Operations instead of Other Comprehensive Income.</p> <p>The Group's decision is based on the following considerations:</p> <ul style="list-style-type: none"> • These bonds are supporting the Group's actuarial reserves. Re-designating to FVTPL will result in a more appropriate matching with the accounting for the movement in actuarial reserves. • These quoted bonds became more actively traded in the last quarter of the 2011 fiscal year mainly as a result of a change in investment manager and investment objectives. • The FVTPL designation for these bonds is consistent with IFRS 9, Financial Instruments. IFRS 9 is the latest IFRS on financial instruments which will become effective on January 1, 2015.
(iv) Stock-based payments	The Group has taken the allowed exemption to apply IFRS 2, Stock-based payments to all equity instruments granted after November 7, 2002 that had not vested as of April 1, 2010, and to all liabilities arising from stock-based payment transactions that existed at April 1, 2010.
(v) Reassessment of lease determination	<p>IFRS 1 includes an optional exemption that if a first-time adopter made the same determination of whether an arrangement contains a lease under Canadian GAAP as that required by International Financial Reporting Interpretations Committee 4 (IFRIC 4), Determining Whether an Arrangement Contains a Lease, but at a date other than that required by IFRIC 4, then the first-time adopter need not reassess that determination for such arrangements when it adopts IFRS.</p> <p>The Group has taken this allowed exemption.</p>

The following sections in the Note explain the Group's transition from Canadian GAAP to IFRS:

31.1 Reconciliation of Consolidated Balance Sheets

31.2 Reconciliation of Consolidated Statement of Comprehensive Income

31.3 Notes to the reconciliations

31.1 RECONCILIATION OF CONSOLIDATED BALANCE SHEETS		Canadian GAAP	Effect of transition to IFRS ⁽¹⁾	IFRS	Canadian GAAP	Effect of transition to IFRS ⁽¹⁾
	Note	MARCH 31, 2011			APRIL 1, 2010	
ASSETS						
Cash and short-term investments	32	17,641	8,604	26,245	13,651	8,662
Interest and dividends receivable		850	-	850	820	-
Investments	31.3 a, b ; 32	365,688	(61,294)	304,394	389,628	(29,479)
Investment in associates	31.3 b	-	46,449	46,449	-	13,633
Receivable for investments sold		12,672	-	12,672	-	-
Insurance balances receivable	31.3 c, d ; 32	18,835	(463)	18,372	11,522	(1,059)
Reinsurers' share of:						
Claims provisions	31.3 c ; 32	5,276	8,482	13,758	3,550	14,508
Unearned premiums		10,463	-	10,463	9,811	-
Investment properties	31.3 a	-	7,006	7,006	-	6,949
Other assets	31.3 d, e, g	5,091	1,302	6,393	5,318	848
Deferred policy acquisition costs	32	723	1,412	2,135	616	1,130
Property and equipment	31.3 a	77,735	(981)	76,754	78,580	(924)
Intangible assets		7,968	-	7,968	6,123	-
TOTAL GENERAL FUND ASSETS		522,942	10,517	533,459	519,619	14,268
SEGREGATED FUND ASSETS – on balance sheet	31.3 f	-	1,162,743	1,162,743	-	1,169,276
TOTAL ASSETS		522,942	1,173,260	1,696,202	519,619	1,183,544
SEGREGATED FUND ASSETS – off balance sheet	31.3 f	1,162,743	(1,162,743)	-	1,169,276	(1,169,276)
LIABILITIES						
Insurance contract liabilities						
Life and annuity policy reserves	31.3 c, d	134,098	3,811	137,909	129,010	11,274
Provision for unpaid and unreported claims		27,218	-	27,218	26,022	-
Unearned premiums		19,436	-	19,436	18,160	-
TOTAL INSURANCE CONTRACT LIABILITIES		180,752	3,811	184,563	173,192	11,274
Insurance balances payable	31.3 c ; 32	12,626	1,987	14,613	9,468	-
Investment contract liabilities	31.3 d	187,224	4,835	192,059	176,232	4,058
Payable for investments purchased		20,821	-	20,821	-	-
Tax payable	31.3 g	-	249	249	-	121
Accounts payable and accrued liabilities	31.3 g ; 32	17,392	(304)	17,088	16,006	(121)
Dividend payable		2,103	-	2,103	2,103	-
Note payable		-	-	-	16,750	-
Loan payable		13,843	-	13,843	19,843	-
Post-employment benefit liability	31.3 h	3,625	-	3,625	6,076	-
TOTAL GENERAL FUND LIABILITIES		438,386	10,578	448,964	419,670	15,332
SEGREGATED FUND LIABILITIES – on balance sheet	31.3 f	-	1,162,743	1,162,743	-	1,169,276
TOTAL LIABILITIES		438,386	1,173,321	1,611,707	419,670	1,184,608
SEGREGATED FUND LIABILITIES – off balance sheet	31.3 f	1,162,743	(1,162,743)	-	1,169,276	(1,169,276)
EQUITY						
Attributable to shareholders of the Company						
Share capital		16,426	-	16,426	16,436	-
Contributed surplus		52,629	-	52,629	52,382	-
Retained earnings	31.3 j	12,376	1,841	14,217	26,494	2,229
Accumulated other comprehensive income/(loss)	31.3 j	1,036	(1,902)	(866)	2,167	(3,293)
Total equity attributable to shareholders of the Company		82,467	(61)	82,406	97,479	(1,064)
Attributable to non-controlling interests		2,089	-	2,089	2,470	-
TOTAL EQUITY		84,556	(61)	84,495	99,949	(1,064)
TOTAL EQUITY AND LIABILITIES		522,942	1,173,260	1,696,202	519,619	1,183,544

(1) Includes reclassification adjustments not arising from the transition to IFRS per Note 32.

IFRS	31.2 RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Canadian GAAP	Effect of transition to IFRS	IFRS	
	<i>Note</i>	MARCH 31, 2011			
	REVENUE				
22,313	Gross premiums written	31.3 d	160,742	(3,655)	157,087
820	Reinsurance ceded		(41,175)	-	(41,175)
360,149	Net premiums written		119,567	(3,655)	115,912
13,633	Net change in unearned premiums		(624)	-	(624)
-	Net premiums earned		118,943	(3,655)	115,288
10,463	Investment income	31.3 b, d, e	3,397	(296)	3,101
18,058	Change in fair value of investments	31.3 i	(11,202)	(1,638)	(12,840)
9,811	Share of earnings of associates	31.3 b	-	1,312	1,312
6,949	Commissions, management fees and other	32	31,035	292	31,327
6,166			142,173	(3,985)	138,188
1,746	EXPENSES				
77,656	Policy benefits	31.3 c, j ; 32	14,585	477	15,062
6,123	Claims and adjustment expenses	31.3 c	82,716	5,565	88,281
533,887	Reinsurance recoveries	31.3 c	-	(9,300)	(9,300)
1,169,276	Gross change in contract liabilities	31.3 c, d ; 32	3,864	(4,858)	(994)
1,703,163	Change in reinsurers' share of claims provisions	31.3 c	-	4,376	4,376
-	NET BENEFITS AND CLAIMS		101,165	(3,740)	97,425
	Commissions expenses		3,234	-	3,234
	Operating expenses	31.3 d, g, h ; 32	36,390	(33)	36,357
140,284	Amortisation and depreciation		5,857	-	5,857
26,022	Interest on loan		812	-	812
18,160			147,458	(3,773)	143,685
184,466	LOSS BEFORE INCOME TAXES		(5,285)	(212)	(5,497)
9,468	Income taxes	31.3 g	-	176	176
180,290	NET LOSS FOR THE YEAR		(5,285)	(388)	(5,673)
-	Other comprehensive income/(loss)				
121	Change in unrealised gains/(losses) on available for sale investments				
15,885	Unrealised gains/(losses) arising during the year	31.3 b, i	1,280	(1,971)	(691)
2,103	Reclassification of realised gains to net earnings/(loss)	31.3 i	(3,226)	3,226	-
16,750	Share of other comprehensive income/(loss) of associates				
19,843	Unrealised gains/(losses) arising during the year	31.3 b	-	354	354
6,076	Reclassification of realised gains to net earnings/(loss)	31.3 b	-	(218)	(218)
435,002	Change in unrealised gains on translating financial statements		815	-	815
1,169,276	of foreign operations		815	-	815
1,604,278	OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(1,131)	1,391	260
-	COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(6,416)	1,003	(5,413)
	Net earnings/(loss) for the year attributable to:				
	Shareholders of the Company		(5,704)	(388)	(6,092)
16,436	Non-controlling interests		419	-	419
52,382			(5,285)	(388)	(5,673)
28,723	Net other comprehensive income/(loss) for the year attributable to:				
(1,126)	Shareholders of the Company		(1,131)	1,391	260
96,415	Non-controlling interests		-	-	-
2,470			(1,131)	1,391	260
98,885	Total comprehensive income/(loss) for the year attributable to:				
	Shareholders of the Company		(6,835)	1,003	(5,832)
1,703,163	Non-controlling interests		419	-	419
	COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(6,416)	1,003	(5,413)
	Earnings/(loss) per share:				
	basic		(0.28)	(0.01)	(0.29)
	fully diluted		(0.28)	(0.01)	(0.29)

31.3 NOTES TO THE RECONCILIATIONS**31.3(a) Investment properties**

Under Canadian GAAP certain properties held predominantly to earn rental income or capital appreciation were included in Property and equipment and Other investments. Under IFRS, these properties are classified as Investment properties and are separately shown on the Consolidated Balance Sheet. These are measured using the fair value model.

The impact arising from the change is a reclassification between asset line items on the Consolidated Balance Sheet:

	MARCH 31 2011	APRIL 1 2010
Consolidated Balance Sheet		
Investments	(6,025)	(6,025)
Investment properties	7,006	6,949
Property and equipment	(981)	(924)
NET ADJUSTMENT	-	-

31.3(b) Investment in associates

Under Canadian GAAP, Investment in associates was included in Investments while the Share of earnings/(loss) of associates was included in Investment income. IFRS requires separate disclosure of the Investment in associates on the Consolidated Balance Sheet and the Share of earnings/(loss) of associates on the Consolidated Statement of Operations.

IFRS also requires consistency in the accounting period and accounting policies in calculating the Group's Share of the earnings/(loss) of associates. As a result, the Group adjusted its share in the earnings/(loss) of associates for any significant transactions occurring between the associates' and the Group's reporting period end and also converted the associates' equity from its respective GAAP to IFRS.

The impact arising from the change is summarised as follows:

	MARCH 31 2011	APRIL 1 2010
Consolidated Balance Sheet		
Investment – reclassification adjustment	(46,665)	(14,792)
Investment in associates – reclassification adjustment	46,665	14,792
Investment in associates – measurement adjustment	(216)	(1,159)
NET ADJUSTMENT TO TOTAL ASSETS	(216)	(1,159)
Retained earnings	(138)	(1,328)
Accumulated other comprehensive (loss)/income	(78)	169
ADJUSTMENT TO EQUITY	(216)	(1,159)
		Year ended March 31 2011
Consolidated Statement of Comprehensive Income		
Net earnings/(loss) for the year		
Investment income – reclassification adjustment		(122)
Share of earnings/(loss) of associates		1,312
TOTAL IMPACT ON NET EARNINGS/(LOSS) FOR THE YEAR		1,190
Other comprehensive income (loss)		
Change in unrealised gains/(losses) on available-for-sale investments		
Unrealised gains/(losses) arising during the year		(383)
Share of other comprehensive income/(loss) of associates		
Unrealised gains/(losses) arising during the year		354
Reclassification of realised gains to net earnings/(loss)		(218)
TOTAL IMPACT ON OTHER COMPREHENSIVE INCOME/(LOSS)		(247)
NET ADJUSTMENT		943

31.3(c) Insurance contracts

Under Canadian GAAP, the reinsurance assets related to life insurance contracts were netted against the life reserves. Under IFRS, netting of reinsurance amounts against related insurance amounts is not permitted.

The impact arising from the change is summarised as follows:

	MARCH 31 2011	APRIL 1 2010
Consolidated Balance Sheet		
Reinsurers' share of claims provisions	8,646	15,332
Insurance balances receivable	1,828	-
NET ADJUSTMENT TO TOTAL ASSETS	10,474	15,332
Consolidated Balance Sheet		
Life and annuity policy reserves	8,646	15,332
Insurance balances payable	1,878	-
NET ADJUSTMENT TO TOTAL LIABILITIES	10,524	15,332

Under Canadian GAAP, the Group netted the income or expense from reinsurance contracts against the expense or income from the related insurance contracts. This net presentation was applied to all insurance contracts of the Group. In addition, the Group recorded the net change in actuarial provision for unpaid and unreported claims under Claims and adjustment expenses. Under IFRS, the income or expense from reinsurance contracts and net change in actuarial provision for unpaid and unreported claims are required to be shown separately on the Consolidated Statement of Operations.

The impact arising from the change is summarised as follows:

	Gross up reinsurance amounts – Life and annuity	Gross up reinsurance amounts and others – Property and casualty and Insured employee benefits
Consolidated Statement of Operations		
Policy benefits	3,581	-
Claims and adjustment expenses	-	5,565
Reinsurance recoveries	(3,531)	(5,769)
Gross change in contract liabilities	(6,150)	1,978
Change in reinsurers' share of claims provisions	6,150	(1,774)
NET ADJUSTMENT	50	-

31.3(d) Investment contracts

The Group has reviewed the classification of insurance contracts under IFRS. The classification remains the same with the exception of certain annuity contracts which failed to meet the insurance contract definition under IFRS. As a result, these annuity contracts are accounted for as investment contracts beginning April 1, 2010.

Under Canadian GAAP, receivables arising from the Funding group policies are included in Insurance balances receivable. As these policies are deposit accounted, these were reclassified to Other assets on the Consolidated Balance Sheet which is consistent with the investment contracts treatment under IFRS.

The impact arising from the change is summarised as follows:

	MARCH 31 2011	APRIL 1 2010
Consolidated Balance Sheet		
Insurance balances receivable	(1,347)	(779)
Other assets	1,347	779
Life and annuity policy reserves	(4,835)	(4,058)
Other deposit liabilities	4,835	4,058
NET ADJUSTMENT	-	-
		Year ended March 31 2011
Consolidated Statement of Operations		
Gross premiums written		(3,655)
Investment income		(284)
TOTAL IMPACT ON REVENUE		(3,939)
Deduct:		
Policy benefits		(2,974)
Gross change in contract liabilities		(953)
Operating expenses		(12)
TOTAL IMPACT ON EXPENSES		(3,939)
NET ADJUSTMENT		-

31.3(e) Leases

IFRS requires that incentives under an operating lease (such as rent-free periods) are recognised as a reduction in rental income over the lease term using an amortisation method applied to the net consideration. The Group has certain lease agreements where the inception date of the lease term differs from the rent commencement date, the date when the lessee occupies the rental space and when the first rental payment is due. The rent commencement date is later than the inception date of the lease term.

Under Canadian GAAP, the Group recognised the net consideration on a straight-line basis from the rent commencement date to the expiration date of the lease. The impact arising from the change is summarised as follows:

	MARCH 31 2011	APRIL 1 2010
Consolidated Balance Sheet		
Other assets	205	95
RETAINED EARNINGS	205	95
		Year ended March 31 2011
Consolidated Statement of Operations		
Investment income		110

31.3(f) Consolidation

The concept of control under IFRS required the Group to consolidate segregated funds on the consolidated financial statements. As a result, Total assets and Total liabilities of the Group increased with no impact on Equity.

	MARCH 31 2011	APRIL 1 2010
Consolidated Balance Sheet		
Segregated fund assets – consolidation adjustment	1,162,743	1,169,276
Segregated fund liabilities – consolidation adjustment	1,162,743	1,169,276

31.3(g) *Income taxes*

Under Canadian GAAP, the Group recorded net amounts arising from income taxes under Accounts payable and accrued liabilities and Operating expenses. Under IFRS, these balances are required to be shown separately on the consolidated financial statements.

The impact arising from the change is summarised as follows:

	MARCH 31 2011	APRIL 1 2010
Consolidated Balance Sheet		
Other assets (Income tax receivable and deferred tax asset)	54	-
NET ADJUSTMENT TO TOTAL ASSETS	54	-
Tax payable	249	121
Accounts payable and accrued liabilities	(195)	(121)
NET ADJUSTMENT TO TOTAL LIABILITIES	54	-

	Year ended March 31 2011
Consolidated Statement of Operations	
Operating expenses	(176)
Income taxes	176
NET ADJUSTMENT	-

31.3(h) *Post-employment benefit liability*

Under Canadian GAAP, a portion of the Group's post-employment benefit liability was discounted using the interest rate inherent in the amount for which the accrued benefit liability could be immediately settled, for example by purchase of an insurance contract such as an annuity. The rate determined was close to the current rate of return on the Group's annuity portfolio. Under IFRS, this method is no longer available. IFRS requires that the discount rate shall be determined by reference to market yields at the end of the reporting period on high quality bonds. This change will result in earnings volatility in periods when the rate of return on the Group's assets differs from the market yields on those reference bonds.

The impact as of April 1, 2010 and March 31, 2011 is negligible since the discount rate used under Canadian GAAP approximates the market yield on high quality bonds.

31.3(i) Designation of previously recognised financial instruments

As of the date of transition, the Group elected to re-designate all bonds classified as available-for-sale to FVTPL. The impact arising from the change to FVTPL is summarised as follows:

	MARCH 31 2011	APRIL 1 2010
Consolidated Balance Sheet		
Investments – Available-for-sale bonds	(64,102)	(65,076)
Investments – at FVTPL bonds designated as such at April 1, 2010	64,102	65,076
Retained earnings	1,824	3,462
Accumulated other comprehensive income	(1,824)	(3,462)
ADJUSTMENT TO EQUITY	-	-
		Year ended March 31 2011
Consolidated Statement of Comprehensive Income/(Loss)		
Change in fair value of investments		(1,638)
Other comprehensive income/(loss)		
Change in unrealised gains/(losses) on available-for-sale investments		
Unrealised gains/(losses) arising during the year		(1,588)
Reclassification of realised gains to net earnings/(loss)		3,226
NET ADJUSTMENT		-

31.3(j) Impact to equity

The following table summarises the net impact of the above changes arising from the transition to IFRS on the Group's equity attributable to shareholders of the Company.

	Note	MARCH 31 2011	APRIL 1 2010
Consolidated Balance Sheet			
Attributable to shareholders of the Company			
Retained earnings			
Adjustment from Investment in associates	b	(138)	(1,328)
Adjustment from Insurance contracts	c	(50)	-
Adjustment from Leases	e	205	95
Adjustment from Designation of bonds to FVTPL	i	1,824	3,462
NET ADJUSTMENT		1,841	2,229
Accumulated other comprehensive income			
Adjustment from Investment in associates	b	(78)	169
Adjustment from Designation of bonds to FVTPL	i	(1,824)	(3,462)
NET ADJUSTMENT		(1,902)	(3,293)
NET ADJUSTMENT TO EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
		(61)	(1,064)

31.3(k) Statement of cash flows

IFRS requires disclosure of Dividend income received, Interest income received, Interest paid and Income tax paid on the Consolidated Statement of Cash Flows. IFRS also requires separate disclosure of the effect of foreign exchange rate changes on cash and short-term investments. As a result, the Group has separately disclosed these items on the Consolidated Statement of Cash Flows.

32 RECLASSIFICATION ADJUSTMENTS

The following reclassification adjustments were made to conform with current year presentation and to correct certain classification errors in prior years. These adjustments did not arise from the transition to IFRS. The impact of the reclassification adjustments to Equity is \$nil.

	MARCH 31 2011	APRIL 1 2010
Consolidated Balance Sheet		
Cash and short-term investments	8,604	8,662
Investments	(8,604)	(8,662)
Insurance balances receivable	(944)	(280)
Reinsurers' share of claims provisions	(164)	(824)
Other assets	(304)	(26)
Deferred policy acquisitions costs	1,412	1,130
Insurance balances payables	109	-
Accounts payable and other liabilities	(109)	-
NET ADJUSTMENT	-	-
		Year ended March 31 2011
Consolidated Statement of Operations		
Commissions, management fees and other		292
TOTAL IMPACT ON REVENUE		292
Deduct:		
Policy benefits		(130)
Gross change in contract liabilities		267
Operating expenses		155
TOTAL IMPACT ON EXPENSES		292
NET ADJUSTMENT		-

Cash and short-term investments

The Group reclassified certain investments in money market funds from Investments to Cash and short-term investments. These investments in money market funds are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Insurance balances receivable

a) Prior to reclassification, the Group's Reinsurers' share of claims provisions included reinsurance receivables related to group life claims. These reinsurance receivables represent actual amounts of claims due from the reinsurers. As a result, the Group reclassified these balances to Insurance balances receivable.

b) The Group reclassified certain balances previously presented under Insurance balances receivable to Other assets and Deferred policy acquisition costs. The reclassification adjustment is to align the accounting policy on the presentation of the insurance balances receivable on the balance sheets of the Group's insurance entities.

Insurance balances payable

The Group reclassified certain payables arising from insurance contracts previously included in Accounts payable and other liabilities.

Consolidated Statement of Operations

These reclassification adjustments were made to correct the amount recorded in Gross change in contract liabilities.

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